Credit

AND FINANCIAL MANAGEMENT

April 1948

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Contents for April, 1948

Cover Picture: Patent annealing rods for spring wire. Patent annealing is a heat treating operation which toughens steel and increases its strength. The picture, which was taken at the Cuyahoga Works in Cleveland, is reproduced through the courtesy of American Steel & Wire Co.

Official Publication of the National Association of Credit Men

One Park Avenue, New York 16, N. Y. **1309 Noble St., Philadelphia 23, Pa.**

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ESTABLISHED 1898 VOLUME 50, No. 4

Published on the first of each month by the National Association of Credit Men, 1309 Noble Street, Philadelphia 23, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the Act of March 3, 1879. Subscription price $3.00 per year, 25c per copy; Canada, $3.50; all other countries, $4.00 postpaid.

Reflections on Easter

Between wars, revolutions, and purges it can be conservatively estimated that in the past quarter century at least fifty million human lives have been destroyed. It is questionable whether at any time in the history of the world such a large number, in so short a space of time, have been killed. It is a tragic record for what we call modern civilization.

The greatest creation of God apparently seems so expendable that human lives, in our generation, seem to be regarded as mere pawns. Surely there must be a very deep-rooted cause for this which must reach far beyond savage dictatorship or irresponsible leadership.

What is the reason human beings throughout the world are so restless and why is strife and conflict the order of the day? Is it because selfishness, greed, lust for power, and an irreligious attitude as reflected in the lack of moral and spiritual qualities is so common in our day and age?

Yet we of this generation boast of our intellectual attainments. We point with pride to the millions of young men and women in our educational institutions. Our scientific and material advancements and our way of life, when we can live, we contend is the best the world has ever known.

Without the spiritual values which bring peace and understanding and the desire to live contentedly one with another, our so-called boasted advancement in civilization is a deceit and fraud.

We celebrate at Easter the Resurrection of the Lord. It would be better that our celebration be practical and that we honor His Resurrection by resurrecting and firmly embracing the cause for which He stood.

HENRY H. HEIMANN,
EXECUTIVE MANAGER

Statements in Credit Work

Many Factors to be Considered in Full Analysis

by GEORGE F. HELWIG
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This is the first of a series of three articles on the subject of financial statement analysis. The remaining two articles will be published in forthcoming issues.

Financial statement analysis in recent years has evoked much discussion and interest on the part of credit men and business executives who have long realized the possibilities inherent in the study of financial information secured direct from their customers. Nevertheless, financial statements must be interpreted in relationship to a large number of factors, some of which will be discussed hereafter, before the full significance of the figures present themselves.

It is quite desirable that those who propose to analyze the figures submitted for credit purposes have a thorough knowledge of the customer's industry and his place in that industry. It is also desirable that they know the yardsticks of that industry, the margins of profit (both gross and net) that are normally realized, and what the percentage of expenses are likely to be. In addition, the manner in which an enterprise or industry is likely to be affected by current economic trends is very helpful.

Great Development Since 1896

A great deal has transpired in the accumulation of financial data for credit purposes since that historic day in 1896 when a small but resolute group of men assembled in Toledo to hold what was the first formal meeting of the National Association of Credit Men. Those pioneers of over fifty years ago are no longer with us, but the imprint of their work has remained behind as a satisfactory pattern to follow.

In the intervening years, much careful thought and study has been given to the accumulation of credit information and data on which to predicate sound credit judgments. Volumes have been written and endless programs have been developed for the express purpose of making avilable facts which can be effectively utilized by the credit executive.

With the national economy becoming more and more complex, it is desirable that credit be extended in the light of the fullest information available.

Information obtained from Dun & Bradstreet, reports of special agencies frequently identified with an industry, Credit Interchange reports, those of banks and attorneys, and the free passage of information between individual credit men and trade groups, form important sources of needed information.

Supplementary to the above, and other sources of credit information not enumerated, financial statements, consisting of balance sheets and profit and loss statements obtained from the customer provide a very effective form of pertinent data.

Desirable Medium of Information

Information which is obtained direct from the debtor, if properly formulated and interpreted, becomes a most desirable medium for a determination of a judgment as to the soundness or the unsoundness of an applicant's business, and the desirability or the undesirability of his application for credit. Nevertheless, the financial data secured from him must be analyzed carefully to reveal, in many cases, important factors which may not at first glance meet the eye.

Apart from the figures which are submitted, the analyst must take into consideration a great many factors which may have an effect, either favorable or unfavorable, upon the company under review. Among these factors are naturally the current economic conditions of the country and the industry. In this connection, a few of the following factors may be worthy of evaluation in our approach to the study of financial statements.

Will Prices Continue Decline?

At the end of 1947, the industrial production index was 189% of the base period average of the years 1936-1939. In 1940 this index was approximately 125%.

Wholesale prices of all commodities have climbed from 78.6% of base in 1940 to 159.2%. During the same period, retail trade increased from $46,400,000,000, to $125,300,000,000. New construction jumped from $6,800,000,000 to $8,800,000,000. Farm prices have increased to 277% of the 1940 base while farm income jumped from $9.1 billion to an all-high total of $34.8 billion in 1947.

Civilian employment in 1940 was 47,500,000, at the end of 1947 stood at 58,800,000. In the same period, wages and salaries increased from $49,900,000,000 to $127,500,000,000.

Weekly earnings during the 7-year period ended increased from $25.20 per to $52.50. In the same period, cost of living which in 1940 was 100.2% of the 1936-1939 base, was raised to 166%.

The high plateau of some of

these prices and percentages show clearly some of the forces which culminated in the market break in stocks on February 4, and which has caused discerning businessmen everywhere to wonder at the extent of the deflationary influences which have set in. Analysts are generally agreed that the price structure has for some time been resting on a very insecure base, and because of that, a downward trend was inevitable.

Many authorities are of the opinion that the price level for all commodities is likely to decline about 20% before the current situation runs its course. This will mean the output of goods in some lines will decline as the pipelines in many industries are giving indications of being filled. This may result in some unemployment, some reduction in the cost of living, and will naturally affect those products which showed the greatest degree of inflation.

As a further means of checking our thinking in the analysis of financial statements, it might be well to recall that deflationary periods which most of us can recall, showed in 1920 to 1921 that business activity fell off about 23% in a year's time. The great depression of 1929 to 1933 shows business activity fell off 53% during its four-year course. In 1937 to 1938, business activity declined 33% in 12 months. In 1948 and 1949, it is estimated in many quarters that business activity will fall off about 15% to 20% over a period of 9 to 12 months before conditions become stabilized.

The current decline stems from the fact that almost two and a half dollars are being spent for less than one and a half times the volume of goods sold.

Influence on Credit Policy

Inflated prices have produced distortions that are causing trouble. Coupled with this there are evidences on many sides of consumer requirements being filled. The frantic rush for materials of all kinds which set in at the conclusion of hostilities has subsided to an orderly walk in many fields.

Our observations indicate in some quarters an over-supply of material, and in some particular fields evidences of distress selling.

If your industry has been or is likely to be affected by recent developments, it will influence your credit policy.

Those of us who recall other breaks in the commodity markets will remember that in its wake business failures follow. In the four-year period from 1921 to 1925 there were 82,661 commercial failures reported by Dun & Bradstreet, an average of 20,665 per year, while from 1929 to 1932 these failures mounted to 109,351, a yearly average of 27,438. In recent years, commercial failures have been relatively smaller numbering according to the Wall Street Journal issue of January 28, approximately 4,000 for 1947, which was several times the number of failures during the war years.

A knowledge of the foregoing makes it necessary to take a realistic view of the financial statements which are submitted as a basis of credit.

Nature of Enterprise Important

Balance sheets and operating statements should be examined with reference to the capacity and the reputation of the management, the integrity of the officers and the knowledge of the business in which they are engaged, as well as on the figures submitted. The nature of the enterprise becomes most important in light of current economic happenings because many of the companies now doing business are of recent origin and have little or no experience in conducting a business in face of declining prices.

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A Practical Treatment of Non-Par Clearance

by HELEN M. SOMMERS
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TROJAN HOSIERY MILLS
Indianapolis

It was a new customer, and the account gave promise of being a valuable one. The first order ran into five figures. By the time the second order for $4,000 was on the books the check for the first invoice was cleared—non-par.

What to do? Accept the collection charges of $10.51 (and all the potential charges on future clearances on the same account) thereby endorsing the bank's chiseling practice, or join the crusade to put an end to the practice, but at the possible risk of offending the customer?

The decision eventually was to word the letter so as to render the customer firm innocent (which it probably was), place the responsibility squarely on the bank where it belonged, and arm the customer with a weapon with which it could, as a depositor, register complaint with the bank against this practice. The letter to the customer:

Gentlemen: The enclosed charge-back invoice for $10.51 represents collection charges on your check dated November 1, in the amount of $10,501.70.

Inasmuch as our invoices totaled $10,501.70 and terms called for payment in the full amount, an additional check for this difference will be appreciated. No doubt the bank of ———— which cleared this check on a non-par basis will be glad to adjust this matter with you.

Very truly yours,

In about two weeks the charge-back was paid along with other items that had in the meantime matured for payment. That the customer did have a session and consequent arrangement with the bank was evidenced by the fact that the firm had entered on the face of the second check the directions: "To be cleared at par." And at par it did clear.

What to Look For in Statements

Four Salient Ratios Which Point Up Dangers

by HAROLD B. RENSHAW
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In considering the subject "Analysis of Financial Statements" we perhaps should consider it objectively and not be too concerned with the headlines of today. However, the headlines of today do point to a need for greater care in our analysis of financial statements which cross our desks than ever before. Let us look for a moment at the headlines in this week's "United States News" (February 13, 1948) where we read "Trouble spots in business: Results of tighter credit . . . Cash is low for many firms." That headline should be sufficient to cause us to stop and consider, but what do we find? In the same issue on another page, "Growing risks in goods on hand . . . losses that can follow decline in prices." These headlines point to the possibility of failures in business, and in that connection I have some figures too:

Bankruptcy Losses Rise

The 10 months business failures in the United States, January to October 1946, were 885, but for the same period in 1947 there were over three times as many failures—total 2846. The liabilities of the concerns which failed in the first instance, 1946, amounted to approximately $41,000,000. The liabilities for 1947 failures increased to $181,500,000. This is an increase of almost 4½ times. The really alarming thing about these 1947 failures is that the average liability per failure was $64,000. This is the highest average liability per failure in any year on record since before the Civil War. Actually, 2846 failures in 10 months is not in itself large because as we go back over the years we will find that the failures have run on the average from 12,000 per year up.

In citing these failure figures I did so primarily to point out that we credit managers have been on a long vacation. I think the vacation is about over and it is time for us to head the old bus back toward home, with the idea that we will be at our desks at an early date to take up serious credit problems. Each of these failures represents an insolvency, and I should like to give you a few ideas in connection with the determination of solvency or insolvency as reflected by financial statements. I should like to discuss this from four phases:

Is Capital Sufficient?

1. I think all of us are well aware of the disaster resulting to a business from too little capital invested—from shoe string financing. This is another way of saying that the owners failed to invest enough money in the business so that they could be assured of sufficient volume to make a living. When insufficient capital is invested in the business, the owners buy groceries with your money and my money instead of with profits of the business. How are we going to determine from a financial statement whether or not there is sufficient capital invested in the business so that the owners can not only buy groceries but expand, if necessary? This can be determined by a consideration of the inside equity to the outside equity; that is, the owner's share of the business compared to the creditor's share of the business, or by a consideration of the ratio.

$$\frac{\text{Net Worth}}{\text{Total Liabilities}}$$

Let us take an example:

Assets		$250,000	
Current Liability	$50,000		
Fixed Liability	100,000	150,000	60%
Net Worth		100,000	40%

In this example the creditors own 60% of the business and the owners only 40%. This is probably an unhealthy relationship, although there is a condition apparent from this financial statement which might offset the unhealthy relationship, and we will consider that in a moment.

Let us look at a balance sheet where the creditor's share is only 40% and the owner's share is 60% as follows:

Assets		$250,000	
Current Liability	$10,000		
Fixed Liability	90,000	100,000	40%
Net Worth		150,000	60%

In this example it is quite apparent that the improved relationship of inside equity enables this concern to pay its bills promptly, and paying bills promptly is an essential ingredient of solvency.

Sometimes it is possible by the use of a funded debt or other long-time liability to bring about a condition where the outside equity is in excess of the inside equity and still have a reasonably healthy condition. In the first example which I cited the fixed liabilities were $100,000 and the current liabilities

were $50,000. In this way the owners have been able to keep their current liabilities down to about one-third of the total outside equity and can keep themselves solvent if they are able to make sufficient profits to retire a fixed liability in the future as it becomes due. Generally, it might be said that as the relationship between outside equity and inside equity approaches 55–45 or 50–50 we are approaching dangerous ground.

Watch Turnover Rates

2. I mentioned the low cash position of many firms together with the growing risks of goods on hand, taken from the headlines of the day. This brings to mind the second phase of our analysis of financial statements relative to the solvency of the owners, namely, the freezing of current assets through buying of unsalable goods, investment in too large inventories and investment in uncollectible accounts receivable—all of these resulting in an increase in the outside equity in the business.

First, let us look at turnover rates. My company, the National Lead Company, is carefully scrutinizing turnover rates at this time. To determine the turnover rate we should divide the cost of goods sold by the average monthly inventory. I realize that all of these figures are not always available to us when we are presented financial statements for credit purposes. The cost of goods sold figure may be hard to find but it should be used whenever possible so that the dividend and the divisor in the ratio are reduced to the same denominator. Use of the sales figure in its place will give a distorted turnover rate. The average monthly inventory may be difficult to find and we may find it necessary to accept in its place the amount of an annual physical inventory. However, turnover rates based upon this formula should be carefully scrutinized in any analysis made today of financial statements, but it does no good to turn merchandise to uncollectible accounts receivable, so just as we examine the turnover of merchandise we should examine the turnover of accounts receivable. This can be determined by the following ratio:

$$\frac{\text{Accounts Receivable}}{\text{Average Daily Sales}}$$

This ratio will show the number of days' sales carried in the accounts receivable ledger. The ideal situation can be reached through a rapidly turning merchandise stock into quickly convertible accounts receivable, which provides cash for the payment of debts as they become due.

It is not very often possible, in analyzing financial statements at our desks, to be able to put our fingers on the individual items which cause trouble in connection with turnover rates in both merchandise and accounts receivable. To do so requires an analysis of the slow-moving or obsolete merchandise items so that pressure can be put upon the owners to dispose of these at an early date. It is also true with accounts receivable that these should be aged so that old accounts can receive the proper attention.

Other Points to Watch

3. We should watch for evidence of tying short-term obligations to the purchase of real estate and plants. There are probably more failures among the big people from this cause than any other. The ratio to look for here is

$$\frac{\text{Fixed Assets}}{\text{Total Capital Stock \& Funded Debt}}$$

This ratio should be less than 1 to 1. If it is not, we have strong evidence that current liabilities have been incurred to finance fixed assets and this can lead to disaster.

4. In the last analysis, we need cash if we are going to pay our bills so never fail to look for the amount of cash on hand and in bank in relation to the other assets and to the liabilities. If it is consistently small in comparison with the other current assets, even though other ratios may appear favorably, there is evidence of weakness. Here is a financial statement which illustrates this point:

Cash	$ 1,000.00
Merchandise	109,000.00
Current Assets ..	110,000.00
Fixed Assets	20,000.00
Total	130,000.00
Accounts Payable	60,000.00
Net Worth	70,000.00

> FACTS! Think of the definition of that simple word for a moment:
>
> "A state of things, as distinguished from something merely alleged or believed; hence, a truth known by actual observation or authentic testimony."
>
> Show me the credit man that bases his decisions in any other manner and I will show you a credit man that boasts about the fact that he has not lost a single dollar in bad debts—but only heaven knows how much in sales. The simplicity of the word itself has an appeal, easy to understand by any and all and so broad in its sense that almost everything needed for a good credit decision is presented.
>
> —Jack W. Doran
> Gulf Oil Corp.
> Houston, Texas

50% Overdue Is Danger Signal

In this case sales for the year amounted to $140,000.00. You will note the absence of accounts receivable in the statement, indicating that they sell only for cash. In this case it would take about five months sales to pay off the present accounts payable if there were no additional merchandise purchased and if the business could be run without any overhead expenses.

There is so much more to a full discussion of the analysis of financial statements that it would take many articles to cover the entire subject. However, if we give proper attention to the four phases of analysis that I have discussed, I am quite sure we, as credit managers, will be able to hold our jobs longer and serve our firms better. We may not be able to keep all of our customers solvent, but we can at least pick out those that are headed for the rocks and save losses to our own firms if we will give proper attention to analyzing the statements that are presented to us.

Changing Values in Financial Appraisal Statements

by F. A. ROYCE
AMERICAN APPRAISAL COMPANY
Boston

I had better go right ahead and treat this mysterious subject from the dual viewpoint of appraisals both of and in financial statements. You are credit men. I am not. Neither am I an accountant nor a lawyer nor a tax expert.

As a financier and as an appraiser, it now behooves me to tell you Credit Men that a "Financial Appraisal Statement" is the very thing that you deal with every day in the week when you investigate the possibilities of your customers finally paying you for the goods which you are about to sell them. You credit men are constantly appraising the financial statements. You look at their balance sheet and you find that it balances, that it discloses a fair amount of cash, that it claims a goodly inventory, and yet that no excessive amount is owed to your competitors. You may also note that your customer owns some land, some buildings, and some machinery—and that nobody seems to have a mortgage on them. The "Financial Appraisal Statement" will undoubtedly also tell you something about your customer's operations—how much money he is making after he has paid for his labor, his purchases of materials from you and others, and whether he has put something aside for a rainy day. You will undoubtedly be dissatisfied with any such single statement, and will want to investigate the trends that reflect the successes of your customer's management. You will thus come into contact with changing values; and it appears to me that if you fail to recognize them as such, or properly appraise them, you will find yourselves slipping as credit men.

My firm has recently been engaged to appraise the sound value of the construction equipment of a contractor whose contracts are guaranteed, bonded, by an insurance company that insists that the present value of his equipment be known. I understand that, although the volume of work which the contractor can complete in a given time has remained static, the amount which he is being paid for that work has skyrocketed. The insurance company recognizes the legitimacy of his increased costs, but it wants to know just what value there may be in the machinery required to complete the execution of the contract. The contractor has told me that he has two steam shovels alike as peas in a pod—that the first he bought from its manufacturer last March for $31,000, and the second last June for $42,000. The present-day replacement cost of those shovels, and of the trucks, concrete mixers, bulldozers, etc., which the contractor owns is of primary interest to the insurance company which undertakes to guarantee the completion of the various projects. The contractor's balance sheet, based on depreciated costs, would obviously be of little value.

The financial mentor whose memory I most deeply respect often used to suggest to me that any business which requires little investment in physical property is a dangerous one in which to invest. The reason is very obvious when you consider the likelihood of competition springing up from those who observe the lush profits of the pioneers in the industry. With due regard for the value of intangibles, (the power to produce, sell and profit where others cannot), my mentor observed that those industries which required heavy commitments in the tools of production are those which will ordinarily show the greatest stability and growth, that certainly they are those which will be most free from the adverse effects of increasing costs of labor and materials. Were he alive today, my mentor would certainly be investigating not only the value of production facilities, but also the steps being taken by management to maintain and to replace the properties as they become exhausted through use.

What Is Value?

What do we mean when we speak of value? How does value change? There was a time when we used to say or hear that a thing is worth its weight in gold—and that actually used to mean something to us—so many dollars an ounce. I maintain that most things which were worth their weight in gold still are—and no more. I once had the opportunity of asking one of the greatest financiers of all time, whether it was not true that if all but one of the major countries of the world went off the gold standard, the world would not still be on the gold standard, and he agreed that it would. I submit to you the thought that were there the free exchange of gold to be allowed to us again today, we would find that with a like amount of it we could engage just about as much time and material as we could when it was so suddenly taken from our possession—in 1933. Thus I submit to you that during the past two decades there has been little if any change in the relative values of labor on the one hand, of the prod-

ucts of labor on another, and of labor-saving devices on still another. Dollar values which fluctuate wildly, and relative values which do not, are thus entirely different things. Unfortunately we are altogether too prone to disregard the difference.

Let us think of a manufacturer who in 1937, distressed at the mounting hourly wages which he had to pay, decided to purchase a machine which would take the place of ten of his employees. The dollar value of the machine when he bought it was, let us say, $50,000. In 1937 he was paying these employees 75c per hour. Today, in 1948, that machine, having been well maintained, is as efficient as it ever was and is still grinding out the product which not less than ten men of the efficiency of his former employees could or would produce at $1.50 per hour. What is the value of that machine to him today, regardless of what its manufacturer would charge him for a new one? I submit that its value remains unchanged in terms of its labor-saving potential, but would I not be very foolish if I failed to give its new dollar value some consideration in appraising the financial worth of its owner? And would not, perhaps, our manufacturer be a little foolish if, in pricing his product, he did not allow something additional for the inevitable future replacement of the machine at a dollar figure in excess of its original cost?

More Capital Needed Today

As Credit Men you are all interested in the current position of your customers, the ratio of current assets to current liabilities, the size of their inventories, and the rates at which they are being turned over. Current assets and liabilities both reflect very accurately the present cost of doing business, the present purchasing price of the dollar. As Manufacturers yourselves, you are well aware that it requires considerably more capital today to maintain an unchanged physical volume of business than it did before the costs of operation began to rise so steeply. The President of International Harvester has stated that $18,000,000 more capital was required at the end of 1947 to carry the same quantities of inventory that were carried at the end of 1946. The financial statements of prosperous concerns reflect this fact beyond question, but in so doing they also reflect a rapidly changing relationship between the value of their tools of production and their working capital.

Has the normal relationship between these two major items on any balance sheet so changed that, in the case of United States Steel its net plant value should have fallen from 3.85 times total current assets at the end of 1934 to only 87% thereof at the end of 1946? Has it so changed that in the case of DuPont it should have fallen from 1.6 times to only 85% thereof during the same years? Or General Motors, from 84% to 55%?

Lest our minds wander too far afield geographically, let us for a moment consider nineteen of the largest manufacturing concerns in New England, whose sales in 1946 totalled more than $600 million. I find that whereas in 1934 their current assets were 1.24 times their net plant accounts, in 1946 this ratio had grown to 2.69 times. Their current assets had more than doubled, while their net plant accounts remained practically unchanged.

May I suggest to you that the proportional size of the plant account of any concern represents the cost of its going into business, whereas the proportional amount of current assets, or working capital, represents the cost of doing business?

Balance Sheets Deceptive

It appears to this observer that the ordinary balance sheet of today is very misleading to the extent that it fails to represent the actual investment, in today's dollars, in the bricks and mortar and machines; that is, the necessary tools of production. Do I not, then, have to wonder if these concerns are going to recover the necessary dollars to replace these tools when they are finally consumed in production?

I have recently expended considerable energy in trying to convince a very important prospect that he should engage my concern to advise him in proper depreciation charges applicable to the machinery used in the several departments of his business, and have ceaselessly pointed out to him that these charges should have an important bearing on the prices which he should receive for his products. He has nevertheless confronted me to this day with the retort that his grandfather had taught him that if a machine is depreciating heavily there has been very little maintenance expended, whereas if maintenance is proving heavy, the machine has most likely served its useful life, maintenance is extending the useful life of the machine and little if any depreciation need be charged against it. He tells me that he has followed this bit of theory for many years and is well satisfied with the profits that it has yielded. Frankly, I find it difficult to quarrel with this rule of thumb method of accounting if I know that a certain condition is holding, i.e., that the total burden of maintenance and depreciation maintains a fairly constant relationship to gross dollar sales. The selling price of one's product, competitive conditions remaining constant, will ordinarily reflect all the elements of cost, including maintenance and depreciation, in terms of the present purchasing power of the dollar. Does it actually today, however, properly reflect the replacement cost of the oldest machines that are being consumed? In times of rising prices it is well to determine whether the amounts being set aside for depreciation have become a lesser part of total costs than formerly. My very good prospect has not yet chosen to inform me with respect to that. Among the larger companies whom I have mentioned I find in this respect trends to both larger and smaller proportional charges.

1% Return on Investment

In recent weeks United States Steel and Bethlehem Steel have announced the approximate results of their operations in 1947. It is interesting to note in the case of United States Steel, the statement of its president that the present cost of the plant necessary to make one ton of steel a year is approximately $300, and from the state-

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Credit in Construction Work

How to Avoid Some of the Hazards

by J. C. HOFFMAN
Credit Manager
HURON PORTLAND CEMENT COMPANY
Detroit

It is perhaps not fully realized how important the construction industry is to our economic life, nor the dollar volume of business it represents. Based on figures released by ***Engineering News Record*** (January 22, 1948) total construction awards made in the United States in 1947 were in excess of five and one-half billion dollars. This was divided approximately two and one-half billion dollars for public works contracts, and the balance approximately three billion, one hundred sixty million dollars, was for private contracts.

To better analyse and discuss sales and credit problems in this field, it seems helpful to break it down by ownership or contracting agencies, as follows:

Public Ownership

Federal Projects: Power development, irrigation, flood control, harbor and river improvements, various government buildings; such as post offices, hospitals, prisons, etc.

State Projects: Principally highway construction, using both State and Federal monies, and State building projects; such as colleges, hospitals, prisons, etc.

County Projects: County road projects, and all County buildings that fall within County jurisdiction.

City or Municipal Projects: Various street and municipal improvements, paving, sewers, waterworks, sewage treatment plants, and schools, hospitals, housing projects, etc.

Private Ownership

This roughly divides into four classifications, as follows:

Industrial construction: Factories and industrial plants.

Large office buildings, private hospitals, private schools, parochial schools, institutions, etc.

Commercial buildings, stores, markets, gas stations, garages and various "taxpayer" type buildings.

Housing: Everything from single homes to flats, multiple dwellings and apartment buildings.

It is apparent from the above that material suppliers must deal with a multiplicity of public agencies, bureaus and authorities, nearly all with varying rules and procedures. Private contract work is less difficult, but before going further into the subject, it is well to review the usual methods of financing all types of projects mentioned. Contractual relationship will be discussed a little further along.

Public Projects

Federal projects are financed by Federal appropriation, so the money is available when construction contracts are awarded.

State road projects are financed largely by State Highway Department revenues (gasoline taxes are important source), plus Federal Aid Road Funds (from Bureau of Public Roads), based on Federal Aid in construction or reconstruction of certain designated highways, and in some cases by specific bond issues authorized for highway construction.

State building projects are usually financed by General Fund appropriation, or a bond issue.

County projects usually are financed by appropriation from General Fund revenues, gas tax revenue returned by the State, Special Assessment Bonds, and General Bond issues.

City and municipal work is financed largely by general tax levies, in some cases by Special Assessment Bonds for paving and sewers, occasionally, Revenue Bonds for waterworks and sewage treatment plants; General Bonds may be issued for public buildings, such as schools and hospitals, and we often find Federal funds participating in housing projects.

Again we find, in the financing of private construction, it is simpler than in public work, the same as was shown as to ownership.

In the case of new factory buildings, or industrial expansion by established manufacturers or industries, such projects are usually part of a long term plan and are almost always fully financed from the time of initiation. The same is true of large office buildings, let us say of the "skyscraper" type.

Private hospitals and private schools, parochial schools, institutions, etc., are often financed wholly or in part by donations, endowments, and subscriptions. Before selling on this type project it is a worthwhile precaution to determine the status of its financing.

Who Is the Real Buyer

To approach the question of credit risk lying between the manufacturer and the construction project itself, we first must explore the channel of sales, or sales outlets. That is, to whom do we sell?

So far as the writer has been able to observe, each major manufacturer or industry supplying the construction field has developed, tested, and established its own sales policy and procedures for marketing its products. Each reader will have to mentally follow

the pipelines of sales distribution from his plant or business to the ultimate use on construction projects, to determine how this discussion applies to his own problems.

To illustrate: Lumber, steel, plaster, glass, and similar building materials will often pass through various hands before actually reaching the final sale and being delivered to the construction project, although in some instances these materials will be purchased direct from the manufacturer by the general contractor, or by a subcontractor. In other instances, materials go through a process of wholesaling, warehousing, partial or complete prefabrication, or warehousing and resale by a building supply dealer.

Therefore, measurement of financial responsibility must be taken of the one to whom we make the sales, and part of our yardstick should rightly be the risk he is accepting, knowingly or otherwise, in reselling to the project itself. How well is he able to project himself? If he collapses from losses on sales, he will likely take some of our money (account receivable) with him. Both hazards and protection in the field as a while will be discussed concisely further along.

Types of Contractors

Before taking up the question of hazards involved, it seems desirable to describe in general terms the type of contractor-purchaser doing various kinds of projects. This will at least help the less experienced Credit Manager to evaluate the probable credit risk arising from various types of work.

Federal power, irrigation and flood control jobs usually attract large contractor organizations, often of years' standing, and financially solid. Such jobs often require moving several million cubic yards of earth, and construction of anywhere from one to a series of concrete dams. Obviously, it requires both capital and know-how, as well as a performance bond, so we find this type of work mostly is done by large and successful operators. This, however, should not preclude a routine credit check before selling.

Harbor and river works are usually done by contractors familiar with, or specializing in, underwater (commonly called "wet") construction. There are many such contractors operating successfully, as a credit investigation will show. On the other hand, a contractor unfamiliar with, or unequipped for, a job of this kind, will probably lose his shirt.

Federal building projects are generally done by the same contractors who erect our State and County buildings, our large office buildings, factories, schools, churches, etc., and are commonly referred to as General Building Contractors. Many of these firms have been operating for years, and have an unimpeachable background of experience and stability.

Contractors in the paving field may be compared closely with those in the building field, at least so far as credit stability goes. Here again there are numerous firms who have operated for many years, and have adequate capital, equipment, and ability. Also this field does attract what we might call the one-man operator. He gets started in a small way, perhaps with limited epuipment and limited capital, and gets anywhere from one to a few small jobs a year. Many times, to be competitive, he takes work on a short margin of profit, because obviously his costs per unit of completed work are higher. His fortunes will rise or fall with the forces of competition. As we all have seen, this small beginner will sometimes grow to become a large and important operator, or may wash out cold with a few jobs.

Less Secure Risks

Contractors in the smaller building field — stores, taxpayer type buildings, and houses—do not so readily lend themselves to a generally descriptive classification. Within this field we find many firms and individuals whose records and integrity are above reproach, and we find many of the opposite category. The latter consist largely of individuals, partnerships, or one or two man corporations, who have little or no office facilities. They are hard to find, and in many cases conduct their businesses from their residences. It may be said, quite accurately, that many of these have no capital, they operate on what credit they can get and on what mortgage money they can obtain on the buildings as they progress. If mortgage money is not forthcoming "as expected," material suppliers wait for payment. Some of these contractors are artists at convincing the unwary material supplier of the large profits to be made by furnishing all materials for their operation, "exclusively." Too many times such accounts are "ballooned" out of all proportion, with the material man holding the bag.

Hazards and Their Safeguards

It probably simplifies our discussion now to compare possible credit hazards in the construction field concurrently with protective measures, rather than to present each topic separately. In doing so, the writer will present the subject matter pretty much on the basis of sales methods of the cement industry, so the resulting contractual relationship can be more clearly defined. It is believed this will present a more concise picture, and bring certain points into sharper focus. So let us now dismiss from our minds all sound contractors previously mentioned, and look only for trouble spots.

On Federal projects, first of all, know the identity of the contracting agency, that is, U. S. Engineers, Department of the Interior, U. S. Treasury Department, U. S. Navy, etc. On some of the larger projects the U. S. Government may elect to purchase materials, in which no credit problem arises. Accounts are usually paid promptly if purchase contract requirements are met, and invoicing instructions complied with.

Protection under Miller Act

If the contractor purchases the materials and fails to pay, the seller can avail himself of the protection of the Miller Act, which provides surety bond protection on all Federal projects. This is fully covered in the National Association of Credit Men, "1948 Manual of Commercial Laws." The act provides good protection, which should be used. The creditor must fulfill certain things required by the Act,

so it is worthwhile to pick up your Manual and look it over.

On Federal building projects, the Miller Act still applies, but in nearly every case we would be shipping and invoicing through a dealer (or transit-mixed concrete operator). HE is the one then **who has right** to action under the Miller Act,—not WE. If the contractor does not pay the dealer, and the dealer can't pay us, we can only look to the dealer, because so far as the law is concerned, we made the sale on his faith and credit alone.

On all State, County and Municipal projects, for both public works and building jobs, almost all states now have a statutory requirement for a surety bond covering payment for labor and materials. If not a bond, then some form of protection, such as a public lien law.

Here again, your **1948** Credit Manual gives you an outline, State by State, of what protection is provided, and a brief digest for each State. It has been the writer's practice to obtain a copy of the statute for each State in which interested, read it carefully, and keep it filed for quick reference if needed. This practice is recommended.

Creditor's Obligations

Bear in mind that the creditor will always find certain statutory provisions he must carry out. If he wants to file a claim he must do so within a certain time. In Michigan, it is within sixty days from date of furnishing the last labor or material. In Ohio, it is ninety days from acceptance of the project. In Wisconsin there is no special statutory provision. In Michigan, the claim must be filed IN DUPLICATE with the contracting public works agency. In some other states notification of non-payment made to the bonding company is sufficient.

So it is imperative that the Credit Manager know the basic statutory requirements of the States in which he is doing business. Further, that he have available proper legal assistance when such is needed. A notice of public works lien is, in itself, usually a rather simple matter, consisting primarily of an itemized statement of the unpaid account, proper identification of the project, and a letter of transmittal embodying such information or declarations as required by the statute.

Enforcing such a lien, and occasionally one will go to foreclosure proceedings, is a different matter, and needs the services of an attorney who is well versed in bonding laws.

Proving Your Claim

A few words should be said here of the importance of setting up shipping orders on such jobs to identify the projects and deliveries of materials thereto. When it comes to showdown, if a bonding company is going to pay a defaulted account, it is going to ask for proof of the account, and may rightfully, in case of question, demand proof of delivery. So if your delivery receipts do not specifically identify the project you may run into trouble, and have to produce or establish further proof.

If, however, your shipping order, delivery receipts and invoices read something like this:

Sold to: X Y Z Company
Detroit, Michigan
Shipped to: Same
Wahjamega, Michigan
Project Number: State Hospital Job
(or road project number, as the case might be)

there can hardly be any further question of proof, providing of course, that delivery tickets are properly signed.

As with the Miller Act on Federal works, State bond or lien laws provide relief only to the firm or individual actually selling to the project. We might ship cement to a concrete pipe manufacturer making pipe for a large sewer or water intake job, or to a transit mixed concrete operator, or to a building supply dealer for resale on the job. We ourselves, have no lien right. They are the fellows who must collect from the contractor. So if we permit such accounts to pyramid on jobs of that kind, we do so strictly at our own risk. The account is secure only to the extent, and depth, that our immediate purchaser is secure. What happens if they do not protect themselves under the State lien law, and suffer heavy loss? They will probably ask the manufacturer to share it with them, but the manufacturer's credit man might far better, on such jobs, be certain beforehand that the re-seller understands what the law requires.

One further word of admonition before leaving this subject. It is not wise to be lulled into a false sense of security by various suave assurances of "personal guarantee," "rich fathers" who are backing sons' enterprises, etc., etc. There comes a day when an account must be collected, or written off. No matter what pledges, promises or assurances you received, when you walk into the courthouse to sue, you can't take a thing with you except the law and the facts. So see to it beforehand that your case is on the right side of both.

Watch Contractor's Credit

Sales to projects arising from private ownership fall into quite different category, and security on such jobs follows fairly parallel with the status of financing and responsibility and integrity of the contractor, previously discussed.

On the larger jobs, properly financed, the owner will pay the contractor as the work progresses. The contractor will pay his material bills as they mature, and usually no serious difficulty occurs, although because of some circumstance or other, tardiness occasionally arises. Chronic tardiness should be recognized for what it is, —an unfavorable symptom, and a thorough investigation should be made.

On smaller type construction, done on hand-to-mouth financing by contractors and builders of little or no financial responsibility, the risk is great. True, practically every State has a Mechanics' Lien Law, or its equivalent. This does provide security against non-payment for labor and materials furnished on a privately owned building job. These laws vary widely by States, fulfillment of the requirements (by the Vendor) are often tricky and difficult, and in some cases the imperfection of merely a word or phrase will ultimately invalidate a claim. Here

again, reference to your Credit Manual will give you a digest of these laws by States.

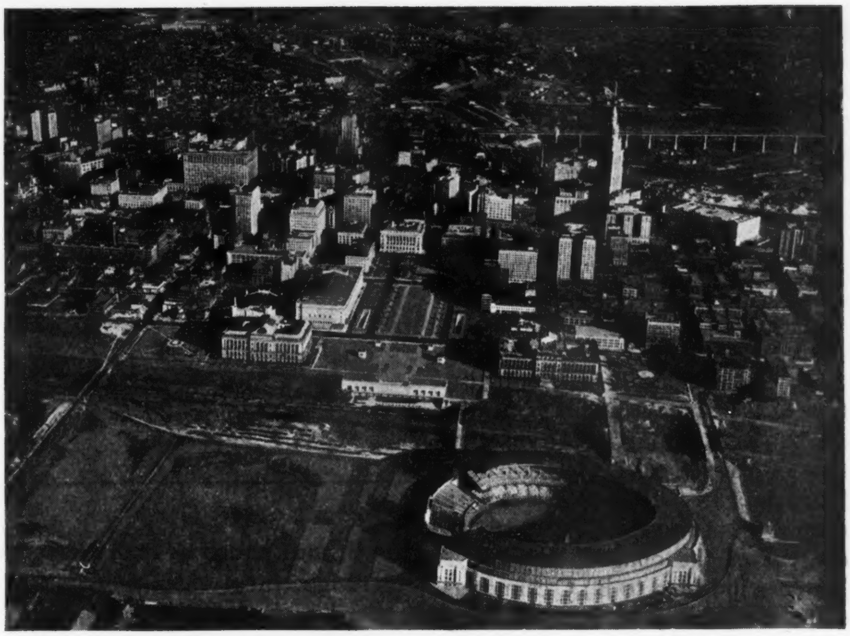
Dealers Need Briefing on Law

The above comment is not to be interpreted as opposition to Mechanic Lien laws. It is not. It is merely a statement of fact. Many dealers and suppliers do not know how, or do not have an adequate or competent staff, to comply with all the legal requirements; consequently, after having relied on the existence of such a law, they find in the end that their supposed lien cannot be enforced. So in the end, it builds up to the situation where the dealer waits for the contractor, and the manufacturer waits for the dealer. The net result? The manufacturer is doing the financing; someone else loaned his money out for him, with neither security nor interest.

Remote control subsidization of this kind usually occurs because of two reasons. First: Insufficient, inadequate, or untimely credit information about the purchaser (dealer, or contractor, as the case may be). Second: Pressure from the Sales Department for approval or shipments, or an outright management policy. Surely it cannot be condoned as a good credit policy, so if Credit Department procedure is guilty, then prompt and effective corrective steps need to be taken. If sales policy is the cause, then it is up to Management to correct it.

Some accounts of this kind eventually turn out all right. That is, they finally get paid up, and in many cases the dealer learns a lesson the hard way and profits by it. In other cases the parties concerned take the "on cuff" method as the accepted order of business, and insist on its rightfulness, because "we have to give our contractors ninety day terms, so you will have to give us the same thing"; "I give you all my business, so why shouldn't you carry me?"; "My contractor can't get any mortgage money until he gets the roof on, so you will have to carry the account a while longer."

This latter category is in too high a percentage to say, without qualification, that a healthy credit condition exists in that strata of the construction field. The problem is how to keep that type of operator's hands out of the manufacturers' pockets.



Aerial View of Downtown Cleveland

Bad Risks Often Large

Granted that a sound selling and credit policy is the objective, then to reach it there is no alternative except to decline credit when the would-be purchaser is not entitled to it, and to suspend or cancel credit terms to accounts that do not pay within reasonable bounds of invoice terms. It will require patient and courageous treatment, tempered of course with common sense, by both sales and credit departments to withdraw from this marginal, and ultimately unprofitable edge of the construction field. Do not let the picture frame itself in your mind that all such accounts are small. Some of them will, one time or another, run into a lot of money, and not infrequently one will blow up in creditors' faces with a tremendous loss. So it behooves the manufacturer, if he does not propose to subsidize, to demand payment within a reasonably administered credit policy, or decline further shipments.

It has been argued vehemently that if one manufacturer doesn't sell, another will, so what do we gain except a loss of business? Easily answered. What would be sweeter than to turn all our bad accounts over to competitors, and concentrate OUR time and energy on the cream of the field?

This does not mean that the Credit Department should shut out all except gilt-edged accounts. A good Credit Manager must be definitely sales minded. He must analyze his sales field until he can, figuratively speaking, draw a line defining a margin of risk beyond which it is not to his Company's interest to go. He will still have some marginal risks, carry accounts on credit limitations, find each month some accounts tardy, etc. But at the end of the year these accounts, properly supervised, will have yielded a lot of business, and with small bad debt loss.

Determining the Margin

Determining and maintaining that marginal line is one of the professional accomplishments we all seek. First, we must have credit files, credit reports, and such supplemental information as is pertinent and becomes available from time to time. There should always be a ready and automatic exchange of information between Credit and Sales, and if this is done, many important items of information will reach the Credit Department files.

Let us assume the Credit Department has classified all customers and prospects down to what we called a marginal line. Now that line must be maintained by constant watching, weeding, and additions, the latter from prospects on

(Continued on Page 39)

The Business Man's Glossary

(Concluded)

by CARL B. EVERBERG
Attorney-at-Law
Boston

Editor's note:

Without pause or explanation we plunge into this month's—the final — instalment of Carl B. Everberg's unique series on legal terms and how not to let them intimidate you. We are quite proud of ourselves at having been in the position to bring these articles to our readers.

Novation—may be the substitution of a new contractual obligation for another, or may be the substitution of parties to a contractual relationship. In the latter case a party cannot be substituted without the consent of the obligee. Suppose A becomes indebted to B; C cannot assume the liability so as to discharge A unless B consents to the assumption. When such consent has been granted, the result is known as novation.

Obligee—A promisee. One to whom a debt or obligation is due.

Obligor—A promisor. One whose duty it is to pay a debt or discharge an obligation.

Option—An agreement by which the owner of property agrees that an offer to sell will be kept open for acceptance for a specified period of time, and not subject to revocation during that time. Such agreement requires consideration to be binding (usually it consists of a deposit which is forfeited in the event there is no exercise of the option). A mere promise therefore, to keep open an offer for a specified period is not binding without consideration, and the owner may sell to any one regardless of the promise, provided the other party has not accepted the offer first.

Ostensible—Apparent. The term is ordinarily used in connection with the customary authority which an agent or partner has. All agents and partners are possessed of certain "ostensible" powers which third persons (who deal with them) have a right to rely upon, even though there may be some express limitation on such powers.

Par — In transactions involving securities, it means the face value. Its root meaning is "equal" and it retains much of this meaning when it is recalled that a corporation cannot issue stock for less than the face value. Hence the amount to be received must be *equal* to the face amount of value stated in the certificate, or at "par."

Perpetuity—(*rule against*). This provision in the law is of ancient origin, but, as currently applied in most jurisdictions, technically requires an estate to vest within the duration of a life (or lives) in being (at the death of a testator for example) plus twenty-one years. Its original purpose was to prevent an estate from being made inalienable, and to prevent perpetual trusts. Those who make wills (especially laymen who are not familiar with the rule) are subject to the danger of establishing trusts which are to function too long to vest title in the principal within the prescribed time, or to the danger of devising property to a person with a limitation that upon the happening of a contingency it is to pass to another, the contingency being one which may not take effect within the said time period. The estate in the latter instance would be inalienable during the period allowed for the contingency to happen, even though that might be 500 years. Illustration: a will devises a house to the deacons of a church forever so long as the minister or eldest minister shall constantly reside in the house and if it is not improved for this use, then to certain others or their heirs. The house might be occupied as a parsonage "for 500 or 1000 years to come." The limitation over to other persons is void. *Proprietors of Church* v. *Moses Grant*, 3 Gray (Mass.) 142.

Pleading—A formal, written statement of allegations filed in a suit; an answer filed in court proceedings; or any written statement embodying a defense filed in such proceedings.

Preference—The payment to or securing of one or more creditors to the exclusion of other creditors or at least in a more favorable way, while insolvent. This is one of the "acts" of bankruptcy, giving creditors the right to file involuntary bankruptcy proceedings.

Privity—The relationship between parties having a mutual interest. The term is difficult to define; it implies a close connection between persons which may arise out of contract, out of co-ownership of property. In the law of contract, only those who are in contractual privity with each other possess rights under the contract or are subject to any liability under it. Strangers to contracts do not have rights and liabilities under them.

Property—In the popular sense, any object, thing, personal or real. But in its legal, technical sense, it is the right of a person to own a thing to the exclusion of all others. In the law of sales it is synonymous with the notion of ownership or title. The Sales Act for example, speaks of the "property" to goods passing from seller to buyer, meaning title to, or ownership of, the goods passing from seller to buyer.

Pro Tanto—To that extent.

Quantum Meruit — What is deserved. The form of action in

which a plaintiff relies for recovery on services rendered where there is at most only an implied promise to pay.

Quasi-Contract—An obligation imposed by law, usually to prevent unjust enrichment. There is neither an express promise to pay nor an implied one; nevertheless the law will require one to pay over money unjustly retained. Example — if money has been paid by mistake to the wrong person, the latter is bound under the theory of quasi-contract to pay it to the party entitled to it.

Quo Warranto—A proceeding by which the government tries the issue as to whether one is exercising a right or franchise legally.

Recourse—(*without*)—A form of indorsement whereby an indorser declines to assume the usual indorser's undertaking as an indorser, i.e. to pay a negotiable instrument upon presentment to and dishonor by the party primarily liable. This qualified indorsement does not excuse the liability of an indorser on the warranties that go with any transfer of an instrument.

Recission—Means usually the annulling of a contract from the beginning, which needs the consent of the parties to a contract to be effective.

Respondeat Superior—Let the master answer. This term is applied to a doctrine in the law of master and servant whereby a master is responsible to strangers for their negligence committed by employees in the course of their employment.

Respondent—The same as defendant, the term being applied in equity cases generally.

Scienter—Knowingly, used in connection with cases of fraud and deceit, having the meaning of guilty knowledge on the part of the one making fraudulent representations.

Seal—The wafer, paper disc with mucilage, solemnly affixed to a contract or instrument of conveyance. Originally, the seal was made with molten wax and an impression made in the wax. In most states today, a scroll is sufficient; in Massachusetts, a recital that the instrument is sealed is sufficient (except in cases of corporations and court documents requiring seals). Many states have abolished the use of the seal entirely, making no difference between a sealed and an unsealed instrument. In those states still recognizing the seal, it imports consideration, and consideration cannot be controverted or attacked.

Set-off — The right of a party against whom a suit on a claim has been brought to a deduction or extinction of such claim by asserting his claim against the other.

Solvent—A term having several tests for definition, but in general, meaning having an excess of assets over liabilities.

Specialty—A contract under seal.

Specific Performance—A remedy in equity in which the court orders a contract performed literally according to its terms, instead of the conventional allowance of money damages foı breach of the contract. Courts in equity will not grant this relief in cases where an adequate remedy may be obtained in law, i.e. where a party may obtain competent money damages so as to enable him to buy or acquire the same thing elsewhere or through another contract with some one else. It is practically always applied, however, to cases in which a seller has agreed to sell real estate on the ground that no real estate can ever be substituted by any other real estate.

Statute of Frauds—The statute, in every state and in England, which requires certain contracts to be in writing to be enforceable.

Statute of Limitations—The statute, in all states, which fixes the length of time within which a suit must be brought upon a given cause of action.

Stoppage in Transitu—The act of a seller who is unpaid, by which he stops the delivery of goods, while they are in transit and resumes possession of them. This right may be exercised in event of insolvency (as defined in Sales Act) of the buyer.

Sui Juris—Of legal competency. Legally capable of managing one's affairs.

Tender—An unconditional offer to perform one's obligation; specifically a production of the amount of money or legal tender necessary on the part of the one whose duty it is to pay. If the tender is refused it does not mean that payment need not be made thereafter, but it does excuse actual performance of the condition of payment so as to enable the one making tender to maintain an action for breach of contract against the other party or to ask for specific performance in equity. Tender of payment does stop the running of interest on the obligation and also costs of suit where they may be chargeable to the party making tender.

Testator—A male maker of a will. The feminine form is Testatrix.

Title—(*to property*)—Means in a general sense the ownership of property. The term is common in sales where the question of the "passing" of title frequently comes up. Many incidents go with title, i.e. risk of the loss (by fire or otherwise), the right of a seller to sue for the price, if title has passed, the right of the buyer to the goods if the title has passed, the respective rights of the creditors against seller or buyer as the case may be, in the goods, depending on whether title has passed.

Tort—A wrong committed by one against another arising out of some non-contractual duty. Negligence, a common tort, arises out of a breach of the duty to exercise due care.

Trover—An action for damages arising out of wrongful exercise of dominion over property of another.

Trust—The holding of property, by one generally known as trustee, for another, known as cestui que trust or beneficiary, subject to a duty to employ it or apply its proceeds in the behalf of the latter person, in accordance with directions given by the person from whom it is received. In another sense, the term applies to unlawful combinations and monopolies. This is because in its typical form a trust of this kind is established when stockholders of many companies transfer their shares to a board of trustees, who then issue trust certificates in exchange, to the stockholders. The trust, by such process, has become a monopoly.

Turpitude—Baseness or shameful character.

Ultra Vires—An act of a corporation, invalid because in contravention of, or in excess of, the powers of the corporation. This doctrine

(*Continued on Page 30*)

It Can Happen Again

Coming Events Cast Their Shadows Before

“The mausoleum!” V.G. slapped a report to his desk decisively. “Miss Lert, will you bring me the mausoleum?” He pushed his chair back and began pacing the floor reflectively while he waited.

“That bankruptcy survey must have brought this on,” thought Alice, remembering the study of the nation's bankruptcies which had come in the mail that morning, and which had occupied the credit manager's attention for the past quarter-hour.

Rummaging through the musty shelves of the file-storage room she located the ledger of charged-off accounts which V.G. had dubbed with the wry title of *mausoleum,* “because,” he had once explained to his assistant, “the dead are buried here. AND it is a monument to mistakes in business judgment—” adding after a second, “the other fellow's and mine.”

Back at his desk, she wiped off the worst of five or six years' dust from the book and deposited it on his desk. “Here is the tome,” she said, knowing he would like the word-play but pretended not to. For Sylvester Gates' enjoyment of a pun was so obvious that the younger employees often wondered whether he had merely submitted happily to his nick-name, or had actually originated it. At any rate, he seemed to enjoy being called Vesty, and the funny flourish of initials with which he okayed orders for credit resolved itself to V.G.

“I've often thought of taking more than just the little peeps I've had into that book,” Alice commented. “Curiosity, you know.”

“It ought to be more than mere curiosity. There are at least two hundred credit lessons in this book, and all for free, now. Lessons,” he added grimly, “that originally

by HELEN M. SOMMERS
Credit Manager
TROJAN HOSIERY MILLS
Indianapolis

Bankruptcies Are On The Upswing

The favorable conditions of the '40's that reduced the likelihood of business failures have tended to take the edge off the alertness which credit men exercise in periods of greater stress. *It is now time to increase our vigilance.*

This is the first in a series of articles in which “Vesty Gates,” a practical credit man, and his Girl Friday, will analyze some actual bankruptcy cases of the 30's and other case-histories, highlighting the things that can happen again. “History,” says V. G., “never makes an exact carbon copy of itself, but the elements that make up a situation, singly or in combinations, do repeat.”

cost a lot of money—and headaches—back in the early thirties.”

“Do you realize,” he continued, waving the bankruptcy survey at her, “that mortalities in '47 were triple those in '46? The failure curve is once more on the way up. We've got to begin looking at our credit analyses with more alert eyes. Things have been pretty easy the past five or six years. Industry and commerce have been in a mental Shangri-la where nobody worries about casualties or possible extinction.” He sat down and began turning the pages of the book. “But the cold winds are now howling in the passes and nipping off more and more of the unwary.”

“Along with their unwary creditors,” Alice agreed. “But how do you propose to sharpen up our wariness? Surely that ledger won't tell us much — except how costly the lessons were.”

“Ah-h!” V.G. continued to thumb. “That's where the post-mortem records come in. Most of these accounts went to their rest while you were still in school trying to learn the difference between debits and credits. Before they were laid away, Dr. Gates performed an autopsy on each and every one. It's all in the files.

“I'm going to keep this Grim Reminder on my desk for a few weeks. Every day we will dig up a new file and re-examine ———” (his voice trailed off with the unfinished thought as his eye caught the name on the next page). “—now here's what I mean. Well do I remember this one. It will make a good starter. Get the file of the Kompleet Department Store of Metropolis and let's you learn about your Uncle V.G.'s mistakes.”

Alice was not deceived by this transparent subterfuge. She knew that V.G.'s little pedagogic act was really reminiscence with a purpose —a sort of refresher course primarily for his own benefit with her education as the second bird the stone would kill. But, glad for the opportunity, she pulled the file from the dusty archives with pleasurable anticipation.

V.G. was musing when he took the file from her hand. “We never in this world should have been hooked on this one,” he said. “Of course that's easy to say now.” He fingered through the papers—credit reports, trade paying records, correspondence, notices of proceedings

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and hearings in bankruptcy from the press and the creditor's committee. "You might say we went into this with our eyes open—but not wide enough. And, before that last year was out I believe we were almost napping."

Turning back to the top page, he said "Here is the case history, nutshell style. In business thirty years, reputation solid. Profits earned consistently with a few bad years here and there. Profit in '29. Broke even in '30. Payments prompt until around Nov. '31. Bankrupt Jan. '32. Our account $6,000 due Dec. 10, '31."

"Goodness, it happened quickly didn't it?"

"No, as a matter of fact, 'it' had been going on for a couple of years. But the end came suddenly." Alice's face registered a question about "it" but she did not interrupt.

"Let's look first at their current position January 1, 1931, one year before the upheaval." He pointed to the simplified statement as he had condensed it for the post-mortem report:

Cash	$ 87,000
Receivables	100,000
Inventory	185,000
	372,000
Due Banks	$100,000
Accounts Payable	105,000
Accruals	2,000
	207,000

"That isn't a very favorable current ratio, is it?" Alice questioned.

"Not by the old two to one yardstick. But current ratios in themselves don't mean much. For instance if, before submitting this statement, they had used $60,000 of the cash to pay off some of the trade debt, they would have had better than a two to one ratio."

Pointing to the net sales of $1,800,000 for 1930, he said, "As you know, department stores operate on a gross margin of about 35%. Sales averaged $150,000 monthly. The goods sold cost them around $100,000 per month. December purchases probably had been heavier. So it looks as if their payables were all current at the time of the statement. And the Interchange report bears that out.

(*Page 20, Please*)

Quick Doctor, The Pulmotor

by R. C. GORDON

Former President

ST. LOUIS ACM

In recent years I have not concerned myself too much with what people think of credit managers, although in the beginning this used to worry me a little. Nevertheless, there are always vast hordes willing to instruct the credit manager in his general conduct or as to how he should ply his trade. Some will claim he should show all of his teeth while smiling and be a "hale fellow well met." Others won't agree to this unless it can be done twenty-four hours a day, in technicolor.

During the years that I was in training I caught myself aping this fellow and making parrot talks of another until it finally occurred to me that I was becoming a mass of misinformation, opinion and theory.

The whole thing now appears so absurd and ridiculous as to make it obnoxious when I read or encounter something by one untrained in credits trying to write our book of rules. My experience has been, almost without exception, that the ones usually attempting to design our pattern know the least about it. This is obviously true, because with any semblance of judgment they would know better than to attempt this technical matter without years of experience.

Occasionally when I feel a little ornery, as I do today, I have encouraged these misguided souls to expound their untrained philosophy and often they believe the liabilities should exceed the assets, that arbitrage is a country in old Egypt and convertibles are a California type automobile.

I am not trying to be funny.

As soon as possible I determine whether the party has studied economics, and it is seldom true; which calls for one of us to take a walk immediately in order to save time for both. Comedians have an expression that they don't have to lay an egg in order to tell a good one. The quip regarding the day's work of a hen is no more humorous than an amateur assuming the profession of a credit manager.

"You should be salesmen," shout the Carpetbaggers.

I'll argue with anyone on any village green until Gabriel blows his horn that the tide should be coming in and not going out when we interview the customer because it is he who establishes the record not the credit manager. We only discover leads, analyze them, and make ourselves understand the story. We operate entirely on facts and not on the customer's ability or inability to persuade us one way or the other. It would be a fine kettle of fish if it worked as some people seem to think it should. If that were the case we could easily condone malpractices because a person had an engaging personality, and at the same time lose enough money to run our soaring costs right out of the market.

We do not deny that in order to obtain information it is necessary to be very cautious. Tact sometimes works to our advantage, but aside from this it is up to the prospect or the customer to convince us that his record, if bad, was the result of conditions beyond his control and failing to do so the conference comes to an end.

The credit fraternity is suffering today because we have stood still for a lot of poppycock coming from folks who don't know the score and it's time for us to take our turn at bat. The depression will be here some of these days, and if we are spineless and gullible now we are liable to be selling apples when business again realizes the need for tried and proven ability.

"The working capital *is*, however, restricted. The ratio of sales to working capital (12 times) is extremely high, indicating that these people were very fast traders. That works only as long as inventory turns fast, which it did in this case, and receivables are collected quickly. The reason creditors could be paid promptly was due to this fast trading, and liberal bank support. The banks had been renewing the loans regularly. They were due for renewal in May, 1931, and again in November."

"Then you considered the current situation satisfactory at that time." Alice's eyes were stealing glances down into the lower part of the statement, but just then V.G. turned the page.

"Now let's take a look at the current picture a year later, just a few days before the petition. Of course, creditors didn't have these figures until later."

The statement showed:

Cash	$ 35,000
Receivables	103,000
Inventory	165,000
	303,000
Accounts Payable ..	$245,000
Accrued Real Estate Tax	27,000
Other Accruals	4,000
	276,000

"Cash down $50,000," V.G. continued. "Receivables held even. Inventory down a little."

"But LOOK at the payables!" Alice interrupted. "And what happened to the bank loan?"

"That's the pay-off, and I mean literally. The banks were smarter than merchandise creditors. They saw the handwriting on the wall, and refused to renew the loans when they became due the first of November. Result, banks paid off, merchandise creditors began waiting for their money. That's the why of the higher payables."

"Payments had been prompt up to that time?"

"Yes, practically so, thanks to bank support."

"Why did the banks call the loans?"

"Notice those accrued taxes? That's a symptom of a dangerous disease reflected in the lower half of the first statement." They turned back to it, and read in silence:

Fixed Assets	$1,500,000
Prepaid Charges ..	10,000
Total Assets	1,882,000
Real Estate Bonds	$ 805,000
Capital Stock	775,000
Surplus	95,000
Total Liab. & Cap.	1,882,000

"Oo-o. Heavy funded debt on heavy fixed assets."

"Yes, there you have the real source of the trouble—the fixed charges. A pile of bricks and mortar can be a tremendous burden. Depreciation and taxes on the property, interest on the heavy debt, to say nothing of provisions to amortize the principal, all spell trouble if they are out of line with income. Why the taxes and upkeep on this property and the service charge on the debt cost this company a cool $80,000 a year! They had to keep up a high rate of sales to break even.

"The first two years they were in their new building they did it. In fact they made a comfortable profit. Bank and trade creditors went along with them, thinking that in a few years they could reduce the debt to a more reasonable figure. In '31 their sales dropped and depression conditions narrowed their gross margin. The jig was up; heavy fixed charges could no longer be supported. The effect of losses began to show up in the last half of the year. Note that taxes for the last half went unpaid. Sinking fund provisions for retirement of debt could not be met. Bank loans were not called until November, so there was no noticeable effect on trade payments up to that point.

"But came November. The banks saw the futility of the store's attempting to continue under such a heavy load in the light of current business conditions. They called, and were paid out of funds that would have normally been used for current expense, including payables due November 10. The store struggled on, hoping Christmas business would help them to recoup a little. They tried to negotiate another loan, and to effect a friendly adjustment of bond interest rates, but the avalanche was already rumbling and nothing could stop it. The end came quickly."

"Why did they finance this building with bonds. Wouldn't it have been wiser to have sold additional capital stock?"

"Oh, the optimism of 1928, probably. Bondholders don't have ownership in the business, and their rate of return is fixed. And, interest on bonds is deductible from taxable income. Dividends are not. At any rate, whatever their reasons for this form of financing, there was little chance to change it after the events of late '29."

"When should we have stopped selling them? Before we ever started?" Alice grinned.

"That would have been the safest time, but not the most profitable. We needed the business, and had sold them for several years, profitably, before the crash. We knew the general risk, though I have learned so much more about ratios since then, that I believe I could now measure the extent of it more accurately. When fixed assets go beyond two-thirds of your net worth, watch. And ditto when total debt is more than two-thirds of net worth."

"Then the danger signals were —" Alice's eyes summed up the statement quickly, mentally tracing lines of relationship between its components. (She was proud of her recent Credit Institute training.) "— the danger signals were: inventory slightly out of line with working capital; fixed assets twice the net worth; funded debt clear out of kilter with working capital —"

"And total debt greater than tangible net worth;" V.G. finished. "A-plus for you. See, they are all here on the post-mortem, plus a summarizing of our mistakes:

(1) Being aware of this firm's necessarily high break-even point, we should have taken warning when they only broke even in 1930. It was an indication of a trend consistent with the growing business depression.

(2) We depended upon trade payments for our danger signals. Mind you, that ordinarily is a wonderful index when you are selling marginal accounts. But we overlooked the effect of the liberal watched trade payments, *and* sales

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Financial Organization

A Blueprint of Treasury Department Functions

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Author's Note: To limit the scope of this paper it is assumed that the treasurer has complete responsibility for his department.

What are the qualifications of a good treasurer? What are his responsibilities? What is the best path to this job?

Before we seek answers to these questions, let's first note that the importance and the stature of financial executives have increased considerably over the recent past. The increased complexity of doing business has been the reason. Think for a minute of the additional burdens that have arisen from increased Government regulation and control.

Changes in Payroll Practice

Most of the change has come about in the last decade and a half. For example, take the payroll function. Although all of the following points may not apply directly to the treasurer's function they illustrate a condition that is familiar to all financial executives.

Prior to 1936, payroll practices were relatively simple. Employees were paid an established rate or salary which, in most cases, was received in full. Today's payroll procedures are involved. A variety of deductions and laws and regulations have entered the picture. Social Security taxes, income tax withholding, pension plan deductions, possibly union dues, war bond deductions, group insurance, hospitalization insurance and still others have become familiar matters in most companies. Complicated overtime computations must be made and wage and hour laws must be observed. During the war salary stabilization brought its own complications. In many of the foregoing illustrations the treasurer has had the responsibility of controlling deductions made and custody of the funds.

Another illustration more directly related to the treasurer involves financing. In 1933 and 1934 the Securities Act and the Securities Exchange Act were passed prescribing in considerable detail rules governing financing conditions and financial standards which either had not formally existed before or which had been provided by the separate states. Another example of increased complexity lies in the field of taxation. The war brought the excess profits tax, tax relief statutes, renegotiation, contract termination and similar matters. In each case some part of the additional responsibility fell within the scope of the treasurer's office.

These points have been mentioned solely to point out the problems that have been added to the business picture and the foregoing enumeration should support the point. It stresses the need for the modern financial executive to be informed on many subjects. He must be broad-gauged, familiar in part with economics, law, accounting, finance and in some part with operating problems. He can get by with less but his responsibility is to contribute at the maximum level.

The Qualities of the Man

Turning back to the first question "What are the qualifications of a good treasurer?", let's touch briefly on some of the more important qualities that I believe the man should possess. One of the leading qualities of any valuable man, not alone treasurers, is the quality of responsibility. You will agree, I am sure, that of the men presently under your direction the one you rate highest is the man who can take an assignment, follow it up, use good judgment but, above all, proceed to the finish of the job without referring time and again to you with every minor question as to how, what, and why. Responsibility means reliability, accuracy and thoroughness. For these qualities the treasurer must be respected.

Another quality greatly needed is the ability to delegate work and to back up subordinates who have made decisions under a proper delegation. Many executives seem to feel that everything needs their personal touch. The result usually is that many of the larger problems are not solved on a timely basis and that routine matters clog the wheels of an efficient operation. In delegating responsibility, decisions made by subordinates must be accepted by the treasurer as his decisions. There are examples where executives in this position have disclaimed responsibility for errors in judgment made by their subordinates. The consequence of the error in judgment in such cases magnifies itself since the morale of the subordinates is completely destroyed.

The "Indispensables"

Another mark of quality in the man is found in the practice of building up the people that work for him and to encourage their progress in the organization. Many times people in key positions feel that their tenure depends on maintaining within themselves a num-

ber of important functions so that they can say, in truth, that they are the only one familiar with the matter and likewise the only one that can perform the job. This practice is unsound and has contributed to the frequent excursions of business organizations to outside sources for qualified men. They fail to see that the necessity of going outside for a man is due to their failure in developing one of their own.

Additional qualities that divide superior executives from the run-of-the-mill variety include the maintenance of a positive attitude and a fresh viewpoint that can see all sides of a problem. Progress in anything depends on individual thinkers who may respect traditions but who do not feel bound forever by such limitations. So many different points of view are possible on most problems that only small men will blind themselves to their possibilities.

Treasurer's Responsibilities

Now then to the second question, "What are his responsibilities?" There has been considerable literature developed on this subject and many of you are undoubtedly familiar with it. A broad grouping of the functions of the treasurer would include the following:

- Financial policies and financing methods
- Cash custody and control
- Investments
- Relations with sources of credit
- Credit and collections
- Cash forecasts and reports
- Insurance

A brief exploration of the key matters under each of the foregoing topics follows.

Financial Policies and Methods

Financial policy making considers such questions as these: What are the various methods of financing that are possible? What method

or methods are best for the company now and in the future? What would be the cost of money in each case? What is the proper timing for financing?

The answer to each question demands thorough planning, requires judgment, experience and a knowledge of financing methods. The range of financing possibilities are extensive. In addition to the usual methods of bonds, preferred stock and common stock financing, there may be other possibilities available such as (1) sell-lease arrangement on fixed assets, (2) sale of accounts receivable and (3) retention of earnings in the business through a conservative dividend policy.

It is obvious that a financial policy must be flexible and it is of course important that it be timed properly. Timing often distinguishes sound policy from unsound. While treasurers are not prophets, the need for capital is reasonably foreseeable and arrangements to secure it should be made well in advance. A proper balance must be maintained in building the capitalization of the company. The economics of the industry and of the business and consideration of the risk element involved is necessary.

Tax Effects

Important in financing today are the income tax effects of financing plans. In many cases this may encompass not only the company's own best interest but also that of its various security holders. Generally speaking, bond interest is a tax deduction to the company whereas cash dividends on stock out of earnings are not. However, generally, interest and dividends are both taxable to the recipient.

In smaller corporations where ownership rests on a small group it is advantageous taxwise to diversify the capitalization by including bonds and/or preferred stock so that, if future capital requirements diminish, capital can be taken out of the business by redemption of bonds and preferred stock. Generally in such cases no tax falls on the holders of the securities, assuming that they paid par value and that no redemption premiums were involved. On the other hand, if this same business had been capitalized entirely on a common stock basis and had accumulated earnings, any partial liquidation would be taxed as dividend income to the recipient at least to the extent of accumulated earnings. This is just one illustration of a practical problem that falls within the responsibility of the treasurer.

Financing Methods

Financial policy-making requires knowledge of the laws applicable to financing. Most states have blue-sky laws and their provisions should be studied carefully by treasurers despite the fact that you may feel that it is strictly a legal function. In other cases involving larger business enterprises, financing may require the filing of a registration statement with the Securities and Exchange Commission. The law and the regulations governing registration statements are very extensive. However, the general requirements thereof should be fully understood by the treasurer. Likewise for the larger corporations, financial reporting requirements of the stock exchanges should be studied.

Since dividend policy has considerable influence on financing methods, the treasurer should have a voice in determining dividend policy. The main theme of financial policy is to provide adequate funds for working capital and permanent capital requirements at a minimum cost. While it may not be the function of the treasurer to decide in every case the financial policy to be followed, it is his responsibility to make studies and recommendations and to guide his superior executive officers who do have the responsibility for making the decision.

Cash Custody and Control

Some of the specific duties under this function are as follows: (1) opening accounts in depositaries designated by the board of directors, (2) supervision of petty cash funds, (3) disbursement of funds under approved procedures based on properly approved vouchers, (4) maintaining records of receipts and disbursements, (5) ascertaining that proper internal control exists in the treasurer's department, (6) provide for surety bonds for employees having access to cash and securities, (7) arranging for physical protection of cash and securities through the use of vaults, safety deposit boxes, messenger services, etc., and (8) signature and endorsement with respect to company bank checks.

This comprises a fairly complete list of specific cash functions. It is well to point out that the pressure of the times has increased temptations for those in positions controlling cash and securities. The number of defalcations has increased and it is a matter of considerable importance that the treasurer satisfy himself that the internal control methods give reasonable protection and that the surety bonds are in adequate amounts. It is necessary in this latter case to be familiar with the reporting requirements to the insurance companies since there may be a possibility, if minor defalcations are not reported, that the company will lose the protection of the surety bond to some degree. It is usually recommended that cash receipts be deposited intact each day.

One further point with respect to matters of internal control is important. Internal control procedures many times represent routine work and possibly perfunctory compliance is about all the attention that employees may pay to it. Errors and defalcations may occur very infrequently, if at all, and may be discovered only by what might appear to be an insignificant variation from normal practice. Unless diligence is constantly exercised, all routines may be ineffective. It is necessary, therefore, to be satisfied that exceptions are being reported and are being properly investigated. The absence of any exceptions to normal practice may be commendable in one sense but, on the other hand, it may be a warning that diligence is lacking in the performance of internal control routines.

Other considerations involving cash and cash control include consideration as to the use of transfer bank accounts, the method used in selecting depositaries, etc.

This function of the treasurer is closely related to the function of

financial policy since the presence of excess funds from time to time should be considered in establishing overall financing plans.

It is desirable to attempt to earn a return on excess working capital funds and consideration must be given to the objectives of the company in implementing this policy. For instance, if the funds are available for a short time, naturally liquidity would be the overriding principle to follow. If the excess funds are planned to be available over longer periods, perhaps more attention should be paid to the rate of return possible on the investment. Today, of course, many companies are in need of working capital and the question of excess funds is not quite so important.

In addition to investment policy, the treasurer has the responsibility for custody of investments and, as in the case of the cash function, should make proper arrangements for the physical control and protection of investments.

Relations with Sources of Credit

It is obvious that a favorable history of credit relations facilitates financing plans. As you very well know from your work in credit, the more information that can be made available to credit sources the less the problem is in deciding whether or not credit can be extended. As you apply it to credit seekers, likewise your company should apply it to itself in its credit relations. Therefore, it is necessary that a corporation, through its senior officers and its treasurer, should maintain good relations with its bankers to see that they are furnished with all information pertinent to that credit relationship. The policies with respect to cash and investments naturally are important in achieving good relations with banks. It is likewise the responsibility of the treasurer to be satisfied with the soundness of the banks with which the company deals and should make such studies and investigations as he believes desirable to satisfy himself on this matter. Where appropriate, relations with investment bankers may be necessary in connection with financing and investment policies. A reasonably informed attitude must be had on current market conditions in order that proper timing may be applied in connection with financing plans. The treasurer should also see that relations with credit agencies are maintained and with others that may exist for his industry.

Cash Forecasts and Reports

Forecasts of cash receipts and disbursements of necessity precede the formulation of financial policy. Both current and long-range cash forecasts should be made and, once made, revised as major changes in the premises occur. Since the basic factors of forecasting rest in some part on all of the activities of the company, it is necessary to have close cooperation with other departments if a satisfactory answer is to be secured. Here again is the necessity for the element of cooperation and of getting along with people which was mentioned in a previous section of this paper.

All significant activities of the treasurer's office should be covered by reports so that senior officials of

the company may have a means by which to judge current trends and also perhaps the efficiency of the treasury department. Usually daily or periodic reports of cash balances and investments are prepared for the use of officers requiring this information. Other reports may include credit information, financing studies, etc.

Another matter that appeals to me and that I classify under the topic of reports relates to the operation of the treasury department as an integral unit of the business enterprise. Where appropriate, I believe the cost of maintaining the treasury department divided into the basic functions performed should be determined. While the design of such a system of reporting may be the responsibility of the controller, cooperation with the treasury department is needed. It should also serve the purpose of the treasurer in knowing just how much the various activities performed by his department cost and to assist him in maintaining control over these operations.

Insurance

Usually insurance coverage is arranged by the treasury department and naturally should be made on the basis to protect the company against losses arising from insurable causes. The necessity to obtain information on insurable values, payrolls, ets. arises and must be obtained from other departments. Today there is a great need to review insurance coverage generally in view of the tremendously increased cost of plant replacement, etc. The custody of insurance policies should be governed by the same considerations given to investments.

How to Get There

Now let's consider the third question "What is the best path to this job?" Naturally the experience obtained in a treasurer's department should be most important in considering the experience necessary to the position of treasurer. Considering the full range of a treasurer's duties, let's attempt to narrow down the phases that contribute most to overall understanding and experience.

The question as to which function is most important can't be answered unequivocably because of the variations that are encountered from one business to another and because of the changing prominence that one field may assume over the years. Assume further that our prospective treasurer needs the qualities mentioned in the earlier section of this paper as a prerequisite. Then let us look at this matter on the basis of which particular function gives the best, well-rounded experience.

It is my opinion that credit and collection affords an opportunity for the greatest over-all training. The reason for this view lies in the fact that a good credit man in effect operates as a treasurer, not necessarily with respect to his own company, but at least with respect to many of the customers of his company. A good credit man is somewhat of a jack-of-all-trades and he must have some knowledge of economics, accounting, law and operating problems. These are requirements also common to a treasurer. Contrast this same experience with, let us say, an individual whose duties are primarily those of a cashier. While the abilities needed for a good cashier should not be minimized, the range of his responsibility is not nearly so extensive as that of a credit manager. Quite a number of analyses have been made of the program of the credit man and a broad grouping of a credit man's duties with respect to credit analysis bears a close similarity to the duties of a treasurer.

There is a considerable range in the organization of treasury departments, necessarily so because of the different sizes and types of organizations. Therefore, the laying out of a typical treasury department organization is not necessarily desirable or possible. Regardless of the size and number of people, however, the responsibilities of treasurers are the same and the necessity for a competent man is great

Statements in Credit Work

(*Continued from Page 5*)

Many of these companies are in lines of business which bear little or no resemblance to their prewar or wartime activities.

Many companies today have embarked in fields in which they have had little experience and where highly competitive conditions exist. This entrance into unfamiliar fields on the part of many companies has been made without a full realization of the production, distribution and financial problems which were involved. Many companies too have been adversely affected by the entrance into their particular field by large and well-financed organizations who have entered into a program of diversification.

Companies Entering New Fields

A few of these companies' activities may be of interest in setting forth this type of competitive activity. The companies which are listed are located in an area close to Toledo and serve many customers in that community. Some of these are:

F. L. JACOBS COMPANY, a manufacturer of body trimmings, instrument panels and spring covers, now engaged in the manufacture of automatic washing machines, household appliances and soft drink dispensers.

KING SEELEY COMPANY, whose prewar output was largely dashboard instruments and automotive specialties, are now volume builders of small power tools, saws and drills.

STANDARD PRODUCTS COMPANY, formerly made metal and plastic stampings for automobiles, are now engaged in the manufacture of soft drink dispensers and various types of vending machines.

MOTOR PRODUCTS COMPANY, who are manufacturers of small automobile body and trim parts, are manufacturing in volume home food deep freezers.

HAYES INDUSTRIES, INC., manufacturers of auto fans, mufflers and moldings, have now embarked upon the quantity production of aluminum and magnesium products.

BRIGGS MANUFACTURING COMPANY, builders of bodies, are extensively engaged in the manufacture of plumbing materials.

MURRAY BODY CORPORATION, in the same general field as Briggs Manufacturing Company, are manufacturing a full line of bathtubs, kitchen cabinets and kitchen ranges.

TIMKEN DETROIT AXLE COMPANY, whose business at one time was nearly 100% motor car and truck axles, expects its heating equipment division to furnish about 50% of its total sales.

In your own experience, there are many companies who, sensing greener pastures on the other side of the fence, have added additional lines of manufacture and distribution, creating a more competitive situation in many lines.

The above preamble to the subject has been given because the financial operation of a business requires sound business acumen and management, as in face of rising costs and taxes, a problem exists for top level management to produce a satisfactory margin of profit in face of stationary or declining volume.

Break-even Point Higher

The examination of the financial statements of over 200 companies engaged in manufacturing and distribution shows many of these having a much higher break-even point in 1947 than in 1946.

Our observations indicate that there are many companies which formerly broke even on a 50% to 65% basis of sales who today are finding it difficult to keep it on an 80% basis.

In the event of a decrease in present volume of 15% to 20% operating losses would ensue. In some cases a decline of even 10% of volume would be the difference between a profit and a loss. The margin today in many enterprises is very thin.

Indicative of this is the statement just released by the American Woolen Company, which reveals that while their sales in 1947 exceeded those of 1946 by 3%, the net profit obtained was 24% below that reflected a year earlier.

It is apparent, therefore, that as the gap closes between sales and net profit, those companies who are known to be high-cost producers or inefficient managers, are likely to feel the first impact of any decline in business.

Companies which lack proper integration are often affected, as too frequently the cost of sublet work makes it difficult for them to secure an adequate margin of profit. Well-managed organizations have realized for a long time that satisfactory financial operation of a business requires sound business judgment to meet the ever-changing panorama of industry and an examination of their affairs will reveal that throughout their operation, production and distribution have been removed from the emotional level to a definite rational level. Other factors that can and do affect satisfactory profits, are climatic conditions, tariff changes, technological improvements, interruptions in transportation facilities, crop failures, labor difficulties, the impact of political changes and changes in the habit of the buying public.

Lower Tariff a Factor?

Many companies today are giving serious thinking to the effects of the Geneva Trade Agreement, which in some cases may in the future affect their profits. For example, one industry located in Ohio which formerly enjoyed a protective tariff of 45% to 70% advalorem plus ten cents on each dozen pieces, now finds itself, as a result of that agreement, in a situation where the duty now is 20% to 35% advalorem and ten cents for each dozen pieces. This thirty-five cent differential in advalorem duty will tend to make foreign competition much more acute and will ultimately be a factor in the company's profits.

Other factors that are worthy of consideration at the present time could well include the action of the Federal Reserve Board in raising their reserves of its member banks in New York City and Chicago.

One month ago today, the action of the bank in increasing its reserve requirements from 20% to 22% has resulted in freezing $420,000,000 in New York City banks and $100,000,000 in Chicago banks, and thus removing from circulation a huge

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More About Business Letters

Correspondence Is First Line of Sales Attack

by DANIEL A. MARQUEZ
Detroit

Why place so much emphasis on the writing of business letters? For exactly the same reason that a salesman undergoes a period of training before representing a firm. Your letter is your salesman.

We all know how important a factor the credit department has become in the structure of a mercantile enterprise. The credit department has as much a part in every sale as the salesman that takes the order. Conversely it is a taken-for-granted fact that good credit management is conducive to sales volume. The merits of the sales department are echoed by the efficacy or power to produce of the credit department and vice versa.

But in reading some credit and collections letters, can you honestly say that there is any sales appeal in them? Remember, I said some, not all, but these some are the ones we want to correct. Look for that dual appeal, credit and sales, in your credit letters. It doesn't take much intelligence to dictate words into a machine but it does take intelligence to compose a tactfully written credit or collection letter with sales appeal.

Very often you are writing to a person you have never met and have no idea of their personality or idiosyncrasies. A salesman has an advantage in actually talking to a customer by being able to "size up" the person before speaking or in the first moments of the conversation. A letter writer however has no way of knowing how the reader will feel when he picks up that letter yet the letter writer must accomplish the same goal as the salesman. That is, to put over the thoughts of the message.

That oft quoted author *Anon.* once said, "A customer is not dependent on us. We are dependent on him." Is that thought uppermost in your mind as you dictate that letter?

Greeting Your Addressee

The first thing you do when you meet someone is to greet them. Why don't you inject the same action in the first part of your letter? You've probably read of the controversy going on over the suggestion to eliminate the salutation of a letter, starting right in with the "meat." The popular appraisal of this suggestion seems to be to retain the salutation. If we are going to keep our letters in the conversational mood wherever possible, it is my opinion that we should stick to this friendly greeting.

Wouldn't it be nice to get a letter in the morning that starts off by saying "Good Morning!" However if the mail was late so that you didn't get the letter until the afternoon mail you might think the writer was a little balmy. Still we can greet the reader by a cordial tone in the first paragraph. How do you like this for an opening paragraph:

> "Thank you very much for your January remittance, Check #A 45621, in the amount of $989.78."

You have accomplished the following factors:

1—Greeted the reader by saying "Thanks."

2—Thanked reader for paying and indirectly for his purchases.

3—Told him right away what you wrote about so that he doesn't have to read word after word to find out.

Please note the third item. Too many letter writers take the attitude, "Oh, he'll know what I am writing about." But when your letter reaches a busy man with many things on his mind, can you expect him to remember every little detail. Even though your contact is so intimate that you can start your letters out "Dear Joe," is still isn't a bad idea to help "Joe" out by refreshing his memory.

Humility Is A Virtue

One of the cardinal points of business letter writing is humility. Confucius, a great salesman, said, "Humility is the solid foundation of all virtues." Our letters, to be effective, must contain that element of persuasiveness mixed with humility in the proportions that will penetrate our goal.

Let's take a letter submitted by Mr. Perrine in his excellent article, "Your Letters Are You," in the December issue of *Credit and Financial Management* and constructively study the formation:

The first paragraph is, "I am glad to have received your letter. It has affected a change in our arrangements, and shipments to your company will issue on the regular open account terms. Your letter itself was the answer to your question as to what you must do to reestablish XYZ's credit rating with us."

The first word is "I." Are you an "I" writer? In reading some letters you would imagine that the writer accomplished everything by himself. "I did this," "I wrote to so and so," "I instructed whoosis," —how about the firm that employs the writer? Don't they provide

some aid to bring about these accomplishments? If they do, why not give them some credit? Professor Gordon Kingsbury, conductor of the Adcraft courses in Advertising and Sales Management at Wayne University will not accept a letter in his classes that starts off by saying "I" or "We." Does that mean we must eliminate this personal pronoun entirely? No, it does not, but we must weigh the circumstances surrounding the use of it. The basic fundamental of good letter writing is plain unadulterated common sense.

Don't Be Ambiguous

The paragraph of this letter goes on, "I am glad to have received your letter." What letter? Has the reader written only one letter to the writer's firm and can he be expected to remember when and what it was about? Many readers are scanners and have fallen into that practice because of the multitudinous correspondence they read. When they go through the morning mail, the first sentence is read to find out what the letter is about. If it requires further correspondence or study, the letter is set aside for completion of the pertinent file or until the rest of the morning's mail is finished. This, however, is up to the personal habits of the reader.

Skipping to the second paragraph, "It is possible that a few shipments went out on sight draft or COD terms while you and I were corresponding. If this is the case, I know you will accept them with good forebearance." Why don't you check your office copies of the invoices issued to this firm so that you won't have to guess at anything. If you don't know how you shipped something, who will?—or don't you have the time to find out?

If you have shipped something COD say so; and where do you get off saying, "I know you will accept them with good forebearance"? You don't know anything of the sort and are being rather presumptuous by saying so. Remember that saying about a customer not being dependent on us but we on him?

The third paragraph maintains this imperative tone by saying, "You will understand, too, that our requesting the sales department to schedule shipments closely to your needs and not excessively during the next few months is a mutual service. The request will not restrict to an extent which will handicap you, for we have not asked that the rate of shipment be lowered from that which has prevailed the past several months."

The letter closes by saying, "I want to thank you, Mr. Jones, for your courtesy in the entire matter. Your company and this one should get along splendidly. Very truly yours."

The writer WANTS to thank Mr. Jones. Why doesn't he? From this letter one would see the meaning of the last sentence—Sure we'll get along OK if you do everything I tell you.

As It Could Be Written

How do you like this revision of the letter:

Thank you for your letter of January 17th regarding shipments to you on open terms. Your letter clarified the situation and we are happy to say that any orders you may honor us with will be shipped on open terms.

However, in checking our invoice records we find that a COD shipment was made to you on the 16th, or a day before your letter was written. We realize the bother this type of shipment causes you but, considering the circumstances, hope we may prevail on you to accept the shipment.

To best serve you our sales department has been instructed to schedule shipments to you to coincide with your needs. The rate of shipment will be exactly that of the period July to December so that your efficiency will not be impaired. If this is not satisfactory, please let us know.

Thank you very much, Mr. Jones, for your courtesy in the entire matter and for the privilege of serving you.

Cordially

You may note that the XYZ matter was not included. This was because the original letter was not definite enough in telling what happened to the credit of the XYZ company. If Mr. Jones did explain his own question in his own letter, it would be better to explain this to Mr. Jones in a way that would make Mr. Jones know or think he knew the answer in the first place instead of pointing out the evident reality to him. Some men dislike having their folly pointed out to them.

Now a word about a factor of letter writing that sadly is too often

overlooked in the analysis, that is, the paper itself. You wouldn't call on a customer in a worn out suit or send a salesman out wearing ill-fitting or inappropriate clothing. Then why use a letterhead that does not properly represent your firm.

Primarily there are two types of Bond Papers, Sulphite Bond and Cotton Fiber Content Bond. Cotton Fiber Content Bonds were formerly known as Rag Content Bonds but the later term has been discontinued of late by many paper manufacturers because of the apparent misconception of the word "Rag."

Sulphite Bond is a wood pulp paper made by dissolving wood chips with a sulphite solution. Cotton Content Bond is a combination of wood pulp and cotton fiber in various ratio percentages up to 100% cotton content. It seems only logical that the use of the paper should dictate the grade.

World Bond is widely known as 25% Cotton Content. Industrial Bond is an example of 50% and 75% Cotton Content would be represented by Endurance Bond. Bond Papers of 100% Cotton, Linen or Flax content such as Oriole Linen Bond are used for the finest grade of business, legal and financial stationery, also for all legal documents and negotiable papers of intrinsic value and of a permanent nature or that which will encounter hard use.

A bond paper must stand on its individual merits however and your printer, stationer or lithographer will be only too happy to show you samples of papers that will properly represent you. A printer is an artist but an artist is only as good as the materials he uses.

A letter has a terrific task to accomplish. It must incite an interest, explain a message in a clear tactful manner, selling that message so that it will cause the desired results yet retaining an air of good will and friendliness. Can you do

Financial Appraisal Statements

(*Continued from Page 9*)

ment of tonnage produced and the net profit realized, that the net profit per ton produced was about $6.25, or 2% on the replacement value new of its production plant. Mr. Eugene Grace has stated that in the period 1940–47 Bethlehem expended $363 million in plants and other facilities, and on the basis of comparison afforded by 1940 and 1947 earnings, made only about 1% on the additional investment. When one considers that today U.S. Steel common is selling at less than 6 times its 1947 earnings, and Bethlehem at 5.4 times, does it not make one stop and ponder the wisdom of investing 50 to 100 dollars in new plant for every dollar which that plant can earn in a boom year?

Assuming that we are in agreement that it would be a good thing to know and to recognize the increased depreciation warranted by replacement costs, the question is how can this be practically accomplished. I would, of course, be remiss in my duty to the appraisal profession if I did not tell you that the best way is to have an appraisal and an annual revision thereof. However, most concerns have to keep some control over insurable values, and some attempt to do so without an appraisal. A comparison of the basis for insurable values with recorded book costs on which depreciation is based would give a practical adjustment, as accurate at least as the present insurance coverage. It should nevertheless be noted that much of the property insured, such as the buildings, is not being consumed as rapidly as the machinery, and for that reason the appraiser would suggest a detailed analysis of the replacement costs of all component parts of the property, the rates at which each part is being consumed, and from the two a fair computation of the numbers of dollars involved.

The principal argument that I have heard raised against recognizing these increased costs is that they are not recognized in tax computations and contrary to accepted accounting practices. Granting the first without argument, may I suggest that if there exist accounting practices which prevent one from knowing what it costs to do business, it is about time to change them. Assets are neither created or destroyed by the accounting process, nor are values created or destroyed by appraisers. I feel very definitely that the value of assets should be interpreted and then protected by adequate depreciation allowances for replacement reserves.

As Dr. Einstein could tell you somewhat more about the Theory of Relativity than I, so am I sure that you Credit Men can tell each other much more about Financial Appraisal Statements.

Glossary

(*Ctntinued from Page 15*)

has become much modified through recent years to the extent that if a corporation has received benefits from its *ultra vires* act it cannot deny liability on that ground; likewise if a person receives benefits from a corporation's *ultra vires* act, he cannot deny liability on the ground. In other respects, however, the doctrine stands.

Usury—Agreement for rate of interest greater than that declared lawful by statute.

Vendor's Lien — The right of a seller to retain possession of property sold (notwithstanding title has passed) as security for the payment of the price. This lien does not attach where the buyer has credit terms in force.

Void—having no legal effect, a nullity.

Voidable—Capable of having no legal effect depending upon the election of a party to avoid.

Watered Stock—Stock which has been issued without payment of corresponding increase in value.

Writ — A precept issued by a court commanding a sheriff or constable to summon a party to the court or requiring the doing of some act. In a very few states, all suits at law are *begun* by writ; in most of the states, suit is begun by the filing of a statement of claim first and then a summons being issued to the defendant(s) notifying him of the suit.

NACM NEWS

About Credit Leaders ***Association Activities***

Foreign Traders To Hold Meeting At Convention

International trade will be featured throughout Tuesday, May 18th. Speakers of international repute will appear on the general convention program Tuesday morning to discuss foreign trade subjects of current importance.

An international trade luncheon sponsored by the Foreign Credit Interchange Bureau is scheduled for 12:30 Noon, Tuesday, May 18th. William S. Swingle, Executive Vice-President of the National Foreign Trade Council, Inc., will be the speaker. Mr. Swingle, who is well known to members of the Association through his past service as Comptroller of the National Association of Credit Men, is today one of the most outstanding figures in foreign trade circles. His talk will cover all current developments in our international business dealings, with particular emphasis on significant aspects of the present and future conduct of our export trade.

Round Table Conference

Following the international trade luncheon a round table conference on foreign credit, collection, and exchange problems will be held, starting about 2:00 P.M., Tuesday afternoon. A. N. Gentes, Second Vice-President of the Guaranty Trust Company of New York will be chairman of this session. All convention delegates are invited to participate in this round table which will represent a clearinghouse for the many problems currently encountered in the administration of foreign credits. The agenda will include credit and collection questions on all major U. S. markets abroad, and questions regarding current terms—anticipated sales and credit terms—export credit methods and procedures, exchange and import controls and other governmental controls both here at home and abroad.

New York: Henry P. Heaviside, for many years General Credit Manager of The New Jersey Zinc Company, 160 Front Street, New York City, has been promoted to Assistant Treasurer. He will continue in charge of all credit matters, although he relinquishes the title of General Credit Manager.

MEMBERSHIP PROGRESS REPORT

MAY 1, 1947 to MARCH 31, 1948 COMPARISON

	Net Gain	Total March 31	Percent
CLASS A			
Cleveland	100	691	116.92
St. Louis	79	732	112.09
Rochester	50	551	173.00
CLASS B			
San Diego	57	352	119.32
Baltimore	51	526	110.73
Newark	37	387	110.57
CLASS C			
Des Moines	51	241	126.84
Toledo	35	212	119.77
Lexington	34	217	118.57
CLASS D			
Honolulu	39	179	127.85
Washington	20	130	118.18
Syracuse	25	172	117.00
CLASS E			
Albuquerque	28	88	146.66
Youngstown	34	115	141.97
Akron	23	78	141.81
CLASS F			
Joplin	10	30	150.00
Davenport	10	31	147.62
Waterloo	13	45	140.62

Survey Shows 1947 Bad Debt Losses Up 76%

Bad debt losses of wholesalers increased by 76% from 1946 to 1947 according to a survey just completed by the Bureau of the Census, Department of Commerce, in cooperation with the National Association of Credit Men. However, although the increase was great, bad debt losses in 1947 did not by any means reach prewar levels. In 1947 losses were 7c per $100 of credit sales, whereas in 1937 and 1938 the loss rate was 35c and 37c per $100 of credit sales, respectively.

The larger firms absorbed less of the losses than the small businesses. Companies doing $5 million or more business lost an average of 5c per $100, whereas the figure rose to 15c for those doing $500,000 or less. However the larger firms showed a higher rate of increase in losses than did the small firms.

Fine Programs Arranged For Group Meetings

Every credit executive has a double purpose in attending the Fifty-Second Annual Credit Congress at Cleveland. Through the general sessions of the convention, he proposes to inform himself on credit matters in general as they relate to all industries in all sections of the country. He proposes to acquaint himself with trends, changes, and new developments in credit within his own industry through the industry meetings arranged for his industry all day Wednesday, May 19. Industry meetings are coordinated with the General Credit Congress Program so he may gain full advantages from both.

Programs for the various industry meetings are complete. The chairman of each meeting has directed his efforts toward incorporating into his program those items of particular interest to his industry at this time. With changes taking place daily throughout all industries which require new plans, new methods, new ideas, the industry meeting is designed primarily to permit the exchange of ideas and the dissemination of information on these new problems and the proper methods of meeting them.

Outstanding speakers have been selected to make formal presentations to various groups. However, this year more than ever chairmen are scheduling open forum discussion periods during which time all delegates attending may take an active part in the program. In these open forum discussions every phase of credit will be discussed and everyone present has an opportunity to relate his problems, ideas or methods of doing things in his everyday work.

Almost without exception every industry is arranging for a luncheon, Wednesday noon, May 19. In some instances, these are get-together meetings for the purpose of acquaintanceship and contact. In others, outstanding speakers have been selected to address the luncheons on some subject vital to the industry.

Men and women are coming to the annual Credit Congress and industry meetings at Cleveland from every section of the country as indicated in the reports received from practically every city in the United States. Early reports show that total registrations will run into thousands. More and more each year credit executives realize its impor-

tance and the value which is to be obtained by attending the annual convention of the National Association of Credit Men. Its real value cannot be measured in dollars and cents.

Unfortunately it is not possible to schedule meetings for every industry. If a meeting has not been scheduled for your specific industry, check over the list which follows and plan to attend any one or more of the sessions of most interest to you. You will be welcome to attend any or all of them.

Following are the program schedules:

Advertising Media

Chairman Pasquier of the Shreveport *Times* and his committee have arranged an interesting meeting for their industry. The meeting will be opened by an address by William J. Staab, Media Director, Fuller, Smith and Ross Agency, Cleveland, Ohio, on the subject, "Partners in Advertising." The balance of the morning session will be devoted to open forum discussion which will include the following subjects: "Radio's problems with agencies (discounts, etc.)," "Credit limits on local display advertising," "What is your credit policy on ex-G.I.'s first business venture?," "What is the trend in 1948 to abolish cash discount?," "Dealing with abusers of discount."

"Facts or Fiction" will be the subject of an address by Owen L. Carlton, Vice-President, Central National Bank, Cleveland, Ohio. This will be followed by an open forum discussion on "Transient advertising" which will include the following: "What is transient advertising?," "Should incoming transient orders be verified through city directory or telephone book by ad taker?," "Requirements for establishing of credit," "New billing methods, post cards, cycle billing, etc.," "Should transient collections be under the supervision of transient credit man?," "How best can errors be eliminated in the classified department which vitally affect the accounting department?," "Locating skips, methods employed," concluding with "What is your big question?," which will give all in attendance an opportunity to present their problems for discussion.

The final feature on the program will be a question and answer period led by Joseph M. Burg, Manager of Credits, A.N.P.A., on the subject, "A.N.P.A. agency recognition." An industry luncheon is scheduled for 12:30 P.M.

Automotive

The program for the Automotive industry meeting will include a number of addresses by prominent and effective speakers on timely subjects of interest to the industry, including the following: "Free economy is best system man has devised,' by Paul E. Belcher, Vice-President, First National Bank of Akron; "Credit files and budgets," by Harry J. Ehlert, Credit Manager, Willard Storage Battery Company, Cleveland, Ohio; "Collections, procedures and attitudes," by L. G. Snyder, Credit Manager, Cooper Tire & Rubber Company, Findlay, Ohio; "Financial statement analysis," by Frank Wharton, Professor, Fenn College, Cleveland, Ohio.

The meeting will conclude with an open forum discussion period on "Credit groups—how to receive the maximum benefits," "Inventories — going up or going down?," "Returned goods have become a problem," "Sales department—credit department cooperation," "Terms —cash discount abuse—requests for extensions," "Agency reports—are they adequate?," "Customer good-will and sales can be built by the credit department," "Credit present and future—bright or ominous?"

The industry will meet at luncheon at 12:30 P.M., at which time Charles W. Cayten, Southwest District Credit Manager, General Tire & Rubber Company, Dallas, Texas, will talk on the subject, "The responsibilities of a credit manager as a business counselor."

Bankers

Out-of-town credit executives attending the Credit Congress will participate in a well-rounded-out program arranged by Cleveland bankers and the Robert Morris Associates. The program will start with a bus trip leaving downtown Cleveland at 11 o'clock to Nela Park, the beautiful plant of the General Electric Company, who will be hosts at luncheon. M. L. Sloan, Vice-President of the General Electric Company, will welcome the visiting bankers. After luncheon there will be a tour of the General Electric Lighting Institute and will conclude with a program in the General Electric Company's spacious auditorium.

After this program the bankers will return to Cleveland. At 6 o'clock there will be a reception and a dinner at 7 o'clock, where the out-of-town bankers will be the guests of the Cleveland bankers. At the dinner meeting they will hear Henry Grady Weaver, Director of Customer Research of the General Motors Corporation, Detroit, address them. His subject will be, "Mainspring —the story of human progress and how not to prevent it."

Brewers, Distillers and Wholesale Liquor

The opening feature of this program will be an address by M. A. Sheridan, Seagrams Distillers Corporation, New York City, on the subject "The inventory position of the wholesalers and retailers today and in the future."

"The increasing practice of hypothecation of accounts receivable and inventory of wholesalers" will be presented by Alfred Sachs, Manufacturers Trading Corporation, Cleveland.

The afternoon session provides for three addresses as follows: "Are the present credit policies of our industry sound?," by Joseph G. Otte, Peter Hauptmann Tobacco Company (Liquor Division), St. Louis, Mo.; "Are the gross profit and increased operating expenses of the wholesaler creating a serious problem?," by R. L. Saylor, Falstaff Brewing Corporation, St. Louis, Mo.; "Are credit men becoming too sales-minded?," by S. Fuchs, Park & Tilford Import Corporation, New York, N. Y.

Discussion periods will follow each presentation.

An industry luncheon is scheduled at 12:30 P.M.

Building Material and Construction

"Credit management for profit" will be the subject of an address by J. E. Wood, Assistant Treasurer, Johns-Manville Co., New York, N. Y.

Don E. Neiman, Secretary, Central Iowa Unit, National Association of Credit Men, Des Moines, Iowa, will present "Proper records."

"Increasing credit department efficiency" is the subject of a talk to be made by A. S. Heiser, Credit Manager, Flintkote Company, Chicago Heights, Ill.

The remainder of the program will be devoted to open forum discussion on the following topics: "Collecting delinquent accounts to retain goodwill and business of customers," "Setting credit limits—how and why," "Credit and sales cooperation," "Credit conditions by representatives in all sections of our country."

There will be an industry luncheon at 12:30 P.M.

Cement

Elliot Balestier, Jr., New York, Secretary, advises that the Cement Credit Division will hold its annual joint groups meeting, at which time discussions will cover a wide range of pertinent subjects dealing with current problems and of vital interest to the credit executives of the cement industry.

Chemical and Dye

"Crystal ball with a rearview mirror" will be the subject of an address by James M. Gillet, Director of Commercial Research, Victor Chemical Works, Chicago. Howard E. Kroll, Manager, Specialized Reports, Dun & Bradstreet, Chicago, Ill., will speak on "Operating ratios as a guide to good management."

Chairman J. C. Hajduk, Victor Chemical Works, Chicago, reports that the following leading credit executives in the industry will be discussion leaders in the open forum section of the meeting: A. D. Perry, Harshaw Chemical Company, Cleveland, Ohio; A. W. Hill, E. I. Du Pont de Nemours Co., Wilmington, Del.; J. C. Lynch, Pacific Coast Borax Co., New York, N. Y.; R. J. Widman, Monsanto Chemical Co., St. Louis, Mo.; E. V. Tarnell, Tarnell Co., Inc., New York, N. Y.

The following topics have been selected for open forum discussion: "Maintaining the goodwill of our customers," "Are the present credit policies of our industry sound?," "Constructive credit department assistance to customers," "Credit-sales department cooperation," "The value of membership in a credit group and how to apply it personally." In addition, delegates will be invited to suggest further topics

An industry luncheon will be held at 12:30 P.M., with an address by J. W. Lerner, Harshaw Chemical Co., Cleveland, Ohio, on the subject, "Chemical and dye credit men look ahead."

Confectionery Manufacturers

Under the capable leadership of Miss L. M. Fischer, George Ziegler Co., Milwaukee, Wisc., a very interesting and complete program has been arranged for this meeting.

"What top management expects from the credit department" will be presented by Philip P. Gott, President, National Confectioners Association, Chicago, Ill.

M. C. McMillan, Executive Secretary, National Candy Wholesalers Association, Inc., Washington, D. C., will speak on "What the wholesaler expects from the confectionery manufacturer."

"Third dimension credits" is the subject of a talk by Paul Millians, Vice-President, Commercial Credit Corporation, Baltimore, Md.

The afternoon session will be devoted to an open forum discussion period, with the following discussion leaders: Robert T. Getty, Rockwood & Company, Brooklyn, N. Y.; Thomas P. Fraser, Brock Candy Company, Chattanooga, Tenn.; Miss Mildred McCall, Walter H. Johnson Candy Company, Chicago, Ill.; with two additional selected from among members of the Industry who register for the meeting.

Open forum subjects scheduled are: "Are present credit policies in our industry sound?," "How to correct destructive credit department practices," "Setting credit limits—how—why?" Delegates will also be invited to suggest additional topics for general discussion.

The confectionery manufacturers will join the food products and allied lines manufacturers at luncheon, where they will hear an address by W. H. Chase, Director of Corporate Publicity, General Foods Corp., New York, N. Y., on "Your credit rating at the opinion bank."

Drugs, Cosmetics and Pharmaceuticals

Chairman George T. Brian, Jr., Noxzema Chemical Co., Baltimore, Md., reports that the program will consist of three formal addresses on topics and by speakers now in the process of selection. The balance of the time on the program will be devoted to open forum discussion on selected subjects and various topics of importance to the Industry submitted by delegates attending the meeting.

Electrical and Radio Manufacturers

Chairman William C. Hall, Sylvania Electric Products Inc., Salem, Mass., reports that because of many requests the electrical and radio manufacturers will meet separately from the electrical and radio wholesalers since the problems in these two industries differ.

Chairman Hall has appointed L. F. Bradley, Arnold Wholesale Corp., Cleveland, Ohio, to prepare the program and conduct the meeting of the electrical and radio wholesalers.

Euclid Avenue, Cleveland. Hotel Statler in Right Foreground.

While these two groups will meet separately and have their own programs, they will meet pointly at luncheon to hear an address by Harry A. Ehle, Vice-President in charge of sales, International Resistance Co., Philadelphia, Pa., on the subject, "The customer looks at the credit and sales departments."

Also by popular demand, the electrical and radio manufacturers will devote the entire day's program to open forum discussion, at which time the following subjects will be discussed, among many others which will be presented at the meeting by delegates attending: "Credit outlook for 1948-1949," "Trend of commercial failures," "Business embarrassments—bankruptcies—receiverships—assignments for benefit of creditors—creditors' committees (a panel discussion)," "Financing of accounts receivable," "Secured credit," "Credit reporting agencies," "Securing of financial statements," "Credit limits," "Reserve for bad debts," "Credit insurance," "Plans for establishing more electrical and radio industry groups throughout the country," "Personal visits," "Taxes," "Terms."

Electrical and Radio Wholesalers

L. F. Bradley, Arnold Wholesale Corp., Cleveland, Ohio, will conduct the morning session of this group. The afternoon session will be presided over by J. S. Ballentine, Westinghouse Electric Supply Co., Detroit, Mich.

Thornton B. Moore, Industrial Economist, Department of Commerce, Washington, D. C., will open the meeting with the subject, "The outlook for the electrical appliance industry."

The balance of the program will be given over to open forum discussion, at which time the following subjects will be discussed, in addition to others which will be presented by the delegates: "Setting credit limits—how and why," "Methods of reducing old accounts while selling currently," "Terms of sale—methods of enforcement—terms infractions," "Mercantile agencies—credit reports," "Financial statements—guaranties," "The new account—what do you do?," The credit department and the salesman," "Do we need another 'regulation W'?"

Fine Paper

Chairman David H. Hotchkiss, The Petrequin Paper Co., Cleveland, Ohio, reports his industry will meet in morning session only. Delegates of the fine paper industry are invited to meet jointly with the paper products and converters industry at luncheon and for the afternoon session. This was believed advisable because credit problems in both industries are so much alike.

The program of this meeting has been divided into three sections— "Our industry," "Our customers," "Our credit department."

Under "Our industry," Francis R. Howe, District Sales Manager, S. D. Warren Co., Boston, Mass., will report on "The paper situation—its effect on distributors and printers."

Under "Our customers," the subject will be "Credits and customers—a salesman looks both ways," to be presented by Herrick F. Peacock, Sales Representative, Millcraft Paper Co., Cleveland, Ohio.

Under "Our credit department," the speaker will be L. Frank Wharton, Assistant Secretary & Treasurer, The Munson Bag Co., Cleveland, Ohio, whose subject will be "Salesmanship—as it applies to the credit department."

A very interesting talk will be made

at the joint luncheon by Paul H. Fall, President, Hiram College, Hiram, Ohio, whose topic will be "Are you a package of collateral, cellulose or dust?"

Floor Coverings and Furniture

Information received from Chairman Charles T. Grassman, Lott & Geckler, Inc., Cleveland, Ohio, indicates a very interesting and informative program has been arranged for this meeting.

"Adequate reserves for inventory adjustments and receivables, and reserves in general" will be presented by Leonard Park, resident partner, Peat, Marwick & Mitchell Company, Cleveland, Ohio.

Ed Corwin, Vice-President and Credit Manager of The John Widdicomb Furniture Co., Grand Rapids, Mich., will speak on the subject, "What are we doing to make the customer a better merchant?"

Two speakers will cover the subject, "The necessity for reappraisals of insurance coverages." The first speaker will be Frederick W. Winkler, C.L.U. General Agent, The Mutual Benefit Life Insurance Co., Cleveland, with the second speaker to be announced later. "Credit trends" is also scheduled for formal presentation, speaker to be announced.

Question and answer period will be provided following each presentation which will permit all delegates to participate in the discussion.

An industry luncheon is being arranged for 12:30 P.M.

Food Products and Allied Lines Manufacturing

"Current problems of the wholesale grocer" is the topic of a talk to be given by T. B. Hendrick, Secretary, Collins-Dietz-Morris Co., Oklahoma City, Okla.

Mr. Shepard Whitman, Director of World Affairs Council, Cleveland, Ohio, will present "The Marshall Plan and its social and political effect on the relationship between the United States and Europe."

There will be a panel discussion by representatives of the food manufacturing industry, with the following taking part: Moderator will be W. R. Dunn, Credit Manager, General Foods Corporation, New York, N. Y. E. M. Shapiro, California Packing Corp., San Francisco, Calif., will be the discussion leader for the subject "Field warehousing." The Discussion leader for "The credit outlook for 1948–1949" will be J. F. Welsh, Secretary, McCormick & Company, Baltimore, Md. Discussion on "Setting credit limits, how and why" will be led by A. P. Brigham, Credit Manager, Pet Milk Sales Co., St. Louis, Mo. Discussion leader for "Credit analysis of customers' accounts to augment sales study" will be Don K. Randolph, Credit Manager, National Sugar Refining Co., New York, N. Y.

The industry will meet with the confectionery manufacturers at a joint luncheon at 12:30, at which time they will hear W. H. Chase, Director of Corporate Publicity, General Foods Corp., New York, N. Y., talk on "Your credit rating at the opinion bank."

Food Products and Confectionery Wholesalers

Chairman Willard W. Williams, F. H. Leggett & Co., Buffalo, N. Y., reports a number of interesting talks on his program.

"Business the rest of the year," by John Love, Cleveland Press, Cleveland, Ohio, will be the first presentation.

G. E. Wilson, Secretary-Treasurer, Ritchie Grocery Co., Eldorado, Ark., will present "The credit man of the future."

"Salesmanship by the credit department" is the subject selected by Carl L. Dilts, Vice-President, Fairmont Foods Co., Cleveland, Ohio.

"Problems of today in the credit field" is scheduled as a round table forum. The panel of experts in charge of this discussion will be Irwin H. Raunick, Fairmont Foods Co., Buffalo, N. Y., T. B. Hendrick, Collins-Dietz-Morris Co., Oklahoma City, Okla., and A. W. Sande, Standard Brands, Inc., Cleveland, Ohio.

An industry luncheon is scheduled at 12:30 P.M.

Footwear

Irving R. Glass, Executive Vice-President of Tanners Council of America, New York, will open the program with an address which will cover various phases of the shoe industry, with particular reference to stabilized inventory valuation, replacement, cost, etc. Ample time will be provided following Mr. Glass' talk for a question and answer period.

Chairman Vesper will be moderator of a panel discussion on credit problems. Panel members and the subject which they will cover are as follows:

Harris T. Fulton, The Ainsworth Shoe Co., Toledo, Ohio—"The credit man of the future."

Harry L. Miller, Tweedie Shoes, Jefferson City, Mo.—"Taxes as they affect our customers—the future tax outlook."

H. S. Collingsworth, Gramling & Collingsworth, Atlanta, Ga.—(Subject to be announced).

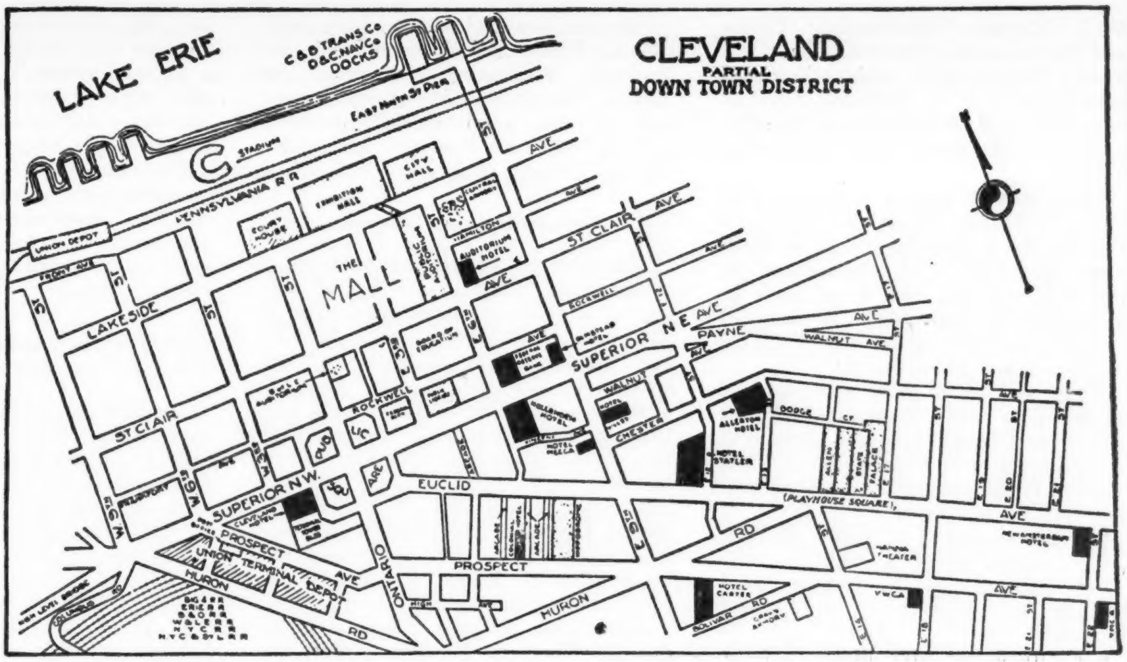
Frank C. Knapp, Endicott-Johnson Corp., Endicott, N. Y.—(Subject to be announced).

The balance of the time on the program will be taken up by open forum discussion of credit problems in the industry,

Hardware Manufacturers

Three formal talks have been scheduled by Chairman F. M. Smith, L C N Closers, Inc., Chicago, Ill., with the

Nela Park, plant of the General Electric Company, where the bankers will be entertained on Group day.



Map of downtown Cleveland. All pictures of Cleveland courtesy of the Cleveland Convention & Visitor's Bureau.

meeting concluding with a round table forum on "Shop talk by credit men."

"After the boom—what?" is the topic selected by E. Wm. Lane, Treasurer, American Screw Co., Providence, R. I.

W. R. Lenga, Credit Manager, American Steel & Wire Co., Cleveland, Ohio, will talk on "Constructive credit department assistance to customers."

"The hidden tax danger" will be presented by R. A. Hoffman, Tax Department, Price Waterhouse & Co., C.P.A., Chicago, Ill.

Discussion leaders and subjects have been assigned as follows for the period on "Shop talk by credit men":

"Credit department procedure"—F. O. Reibold, National Enameling & Stamping Co., Milwaukee, Wisc.

"Terms of sale"—R. J. Arnold, Independent Lock Co., Fitchburg, Mass.

"Financial statements"—E. W. Setty, H. D. Hudson Mfg. Co., Chicago, Ill.

"Collection problems—how to meet them"—A. P. Gram, Eaton Manufacturing Co., Cleveland, Ohio.

At the conclusion of the discussion on these assigned topics, the delegates will be invited to present subjects for open forum discussion.

The industry will meet at a joint luncheon at 12:30 with the hardware wholesalers and the paint, varnish, lacquer and wallpaper industries, to hear a talk by Merle Hostetler, Economist, Federal Reserve Bank, Cleveland, Ohio, on the subject "The business outlook."

Hardware Wholesalers

This program will consist of four general topics of discussion. Opening remarks on each topic will be made by discussions leaders assigned by the chairman, following which the subject will be thrown open for general discussion on various phases relating to the general topic.

The first subject is "The financial statement," presented by G. C. Klippel, Van Camp Hardware & Iron Co., Indianapolis, Ind. General discussion will include the following: "X-raying the balance sheet," "Danger signals in the financial statement," "Spotting the weak spots," "Is failure likely and why?"

J. C. Conley, Wright & Wilhelmy Co., Omaha, Nebr., will be the discussion leader on "Credit regulations and methods," and will elicit discussion on the following: "Passing credit on the new business venture," "Control of accounts receivable," "Training credit department personnel," "Terms and credit limits," "Effect of the shortage of merchandise and commodities upon the granting of credit."

The afternoon session will be opened by J. G. Holland, Moore-Handley Hardware Co., Birmingham, Ala., as discussion leader on the topic, "Credit and sales department." The discussion will embody the following: "Difficulties encountered in contacts with the sales department," "Keeping salesmen informed as to the condition of their accounts," "Instructing a new salesman in the organization," "Should the credit manager be included in the general sales meeting?"

O. H. Berryman, John Pritzlaff Hardware Co., Milwaukee, Wisc., will cover "Collection correspondence," and the discussion will include: "Following the past due account," "Form letters vs. dictated letters," "Turning down the order," "Charging back cash discount," "Use of credit interchange reports in collections."

Insurance

Program details will be available at the meeting.

Iron and Steel

Chairman K. C. Sommer, Youngstown Sheet & Tube Co., Youngstown, Ohio, has prepared an interesting half-day program for his industry. Delegates attending the iron and steel industry meeing are invited to join the non-ferrous metals, raw materials and allied lines industry meeting at luncheon and for their afternoon session.

One of the formal talks at the iron and steel session will be given by F. O. Kiel, Industrial Economist, Federal Reserve Bank, Cleveland, on the subject "The outlook for business." W. H. Lang, Assistant Treasurer, Carnegie Illinois Steel Corp., Pittsburgh, Pa., will lead the discussion following Mr. Kiel's talk.

"Reorganizations in and out of the courts by creditor cooperation" will be presented by E. P. Foley, Credit Manager, Republic Steel Corp., Cleveland, Ohio. Discussion leader for this subject will be M. L. Haible, Columbia Steel & Shafting Co., Pittsburgh, Pa.

Machinery and Supplies

Wm. L. Beck, Chief, Industrial Equipment Section, Department of Commerce, Washington, D. C., will address the meeting on the subject, "Influence of European Recovery Program upon the machinery and supply industry."

"Bankruptcies and adjustments" will be covered by Hugh Wells of Wells & Marks, Attorneys and Counselors at Law, Cleveland, Ohio.

James W. Marsteller, Credit Manager, Allied Oil Co., Inc., Cleveland, Ohio, will present "Financial statement analysis."

A. J. Battista, Vice-President, Union Bank of Commerce, Cleveland, Ohio, will talk on "Exports."

Ample time will be allowed for a full discussion following each talk, and in addition an open forum period is scheduled to discuss thoroughly "Today's credit problems in the industry."

An industry luncheon is scheduled and all delegates are invited to attend.

Meat Packing

Welcome address will be made by J. C. Knox, Credit Manager of Swift & Company, Cleveland. Chairman J. E. Walsh, Oscar Mayer & Co., Chicago, reports that

W. G. Fletcher, Vice-President, Cleveland Provision Co., Cleveland, Ohio, will present "Salesmanship within the credit department." R. A. Hoffman, Tax Department, Price, Waterhouse & Co., Chicago, Ill., will cover "That hidden tax danger."

The afternoon session will open with a movie entitled, "Meat and romance." This picture is rated as one of the most outstanding films ever produced in the food field, starring Alan Ladd, with an all-Hollywood cast, and is supplied through the courtesy of the National Live Stock and Meat Board.

There will be a panel discussion of which A. L. Jones, Assistant Treasurer and General Credit Manager, Armour & Co., Chicago, will be moderator. The panel of credit executives and their subjects will be as follows:

For Cleveland: J. C. Knox, Swift & Co.—"Looking ahead in credit."

For Chicago: R. A. Carrier, Agar Packing & Provision Co.—"Keeping abreast."

For Pittsburgh: Mrs. Mary Delfrate, Delfrate Packing Co.—"Value of credit group meetings."

For Detroit: A. P. Doherty, S. Loewenstein & Son—"Credit problems in Motor City."

Delegates will meet at luncheon where they will hear as guest speaker Otto Graham, All-American halfback at Northwestern and presently football star of the Cleveland Browns professional football team.

Non-ferrous Metals, Raw Materials and Allied Lines

Chairman A. E. Sevald, The American Brass Co., Detroit, Mich., reports that his industry will meet in morning session with the iron and steel group.

For the afternoon session, Chairman Sevald has arranged for Archie Marks, Wells & Marks, attorneys and counsellors at law, Cleveland, Ohio, to address the meeting on the subject, "The legal aspect of credit." J. B. Neiman, general manager, general aluminum department, Federated Metals Division, American Smelting & Refining Co., Detroit, Mich., will deliver an address of vital importance to the industry. The title of his talk will be announced later.

Following these addresses, the meeting will be given over to a general discussion of credit problems and matters relating to the industry as a whole.

Paint, Varnish, Lacquer and Wallpaper

Chairman Karla J. Howe, Great Lakes Varnish Works, Chicago, Ill., advises that this industry in planning a very interesting session at which will be discussed present problems of today's business. Outstanding speakers discussing subjects of vital interest to the industry are being selected. Such subjects as "The credit man—an ambassador of goodwill," "Anti-trust laws." "Bankruptcies and adjustments" have been selected and prominent speakers assigned. Complete program details will be made available at Cleveland.

The industry will meet jointly with the hardware manufacturers and the hardware wholesalers industries for luncheon at 12:30 P.M., at which time they will hear a talk on "The business outlook" by Merle Hostetler, Economist, Federal Reserve Bank, Cleveland, Ohio.

Paper Products and Converters

"The four C's of credit as they apply to the paper industry" will be the subject of a panel discussion, according to Chairman F. C. Heath, Sealright Co., Inc,. Fulton, N. Y. "Capital" will be covered by Dale M. Walker, Assistant Treasurer, American Paper Goods Co., Chicago, Ill.; "Capacity" by Scott Foster, Credit Manager, Dennison Manufacturing Co., Framingham, Mass.; "Character" by Robert O. Brosius, Assistant Treasurer, The Gardner-Richardson Co., Middletown, Ohio; "Conditions" by Emmett W. Below, Credit Manager, Marathon Corporation, Menasha, Wisc.

Dr. Warren Guthrie, Department of Speech, Western Reserve University, Cleveland, Ohio, will talk on the subject, "How to win friends and influence people and still keep your customers' respect."

Adequate time is allowed for open forum discussion, at which time delegates will be requested to submit subjects which they want discussed in open forum fashion in order to get the views of the leading credit executives of the industry.

The industry will be joined by the fine paper delegates at luncheon at 12:30 P.M., at which time Paul H. Fall, President, Hiram College, Hiram, Ohio, will discuss as his subject, "Are you a package of collateral, cellulose or dust?"

Petroleum

In compliance with the desires of a majority of the credit executives of the industry, the chairman of the program committee, A. E. Fletcher, Standard Oil Co. (Ohio), Cleveland, Ohio, informs that a good portion of this industry session will be devoted to open forum discussion of vital subjects as they relate to the petroleum industry. Some of the discussion subjects which have been scheduled are "Credit identification card accounts," "Domestic heating oil accounts," "Resellers," "T.B.A.," "Credit reporting services."

The board of experts who will lead these discussions are L. W. Bernhard, Esso Standard Oil Co., New York, N. Y.; Harry E. Butcher, Cities Service Oil Co., Chicago, Ill.; D. A. Grant, Socony-Vacuum Oil Co., Inc., Chicago, Ill.—Ross R. McCoy, Gulf Oil Corp., Pittsburgh, Pa.; William Stockton, The Atlantic Refining Co., Philadelphia, Pa.

Sufficient time will be allowed for open forum discussion on subjects not covered in the program and all those in attendance will take part in the program by bringing up the problems confronting them for the experts in the petroleum industry to answer.

Formal talks will be made by Don Patrick, President, Sundorph Aeronautical Corp., Cleveland, Ohio, who will devote his time to the subject, "Operating a private airport." "Public relations" will be a subject covered by John Wieland, Advertising Manager, The Standard Oil Company, Cleveland, Ohio.

The industry will meet at luncheon, at which time a movie will be shown, entitled "Opportunity, the story of the best location in the nation." All delegates in the petroleum industry are invited to attend.

Plumbing, Heating, Refrigeration and Air Conditioning

Chairman Corwin R. Fraser, Burnham Corporation, Irvington, N. Y., reports that his program will consist of four formal talks on subjects vital to the industry, presented by leading speakers of outstanding ability.

The first subject will be "Current trends and the business outlook" by David C. Elliott, economist, The Cleveland Trust Company, Cleveland, Ohio. Richard F. Stevens, attorney, Baker, Hostetler & Patterson, Cleveland, Ohio, will present "Credit activities of trade associations under the anti-trust laws."

"Selling yourself to sales and management" is the subject of the talk to be given by Frank Griesinger, credit manager, The Lincoln Electric Co., Cleveland, Ohio. J. C. Dockeray, assistant chief, finance and tax division, Office of Small Business, United States Department of Commerce, Washington, D. C., will cover "Tax problems of small business."

Ample time will be provided for a question and answer period following each presentation.

An industry luncheon is scheduled at 12:30 P.M.

Public Utilities

This meeting will be in session Tuesday afternoon, May 18, for assembly and registration, and also to hear a welcoming address by E. L. Lindseth, President of The Cleveland Electric Illuminating Co., Cleveland, Ohio. Following this address, H. J. Offer, Detroit Edison Company, Detroit, Mich., will discuss "The use of credit interchange service by public utilities." E. C. Lockman, Assistant Secretary-Manager, Detroit Association of Credit Men, Detroit, Mich., will be on hand to answer technical questions regarding the service.

The meeting will reconvene on Wednesday, May 19. A great deal of thought and study have been devoted to the preparation of an interesting and outstanding program. Formal subjects will include the following:

"Bankruptcies—limitations and rights of utilities under Federal statutes"—Judge C. D. Friebolin, Cleveland, Ohio.

"Policy changes within our industry"—O. J. Vosbrink, Union Electric Company of Missouri, St. Louis, Mo.

"Capitalizing on customer complaints"—P. W. Kleisner, Commonwealth Edison Co., Chicago, Ill.

During the morning and afternoon sessions on Wednesday, ample time will

be provided for members to discuss subjects submitted by members.

An industry luncheon is scheduled at 12:15 P.M., followed by an address on "Have we brought inflation under control?" by Russell Weisman, professor of economics, Western Reserve University and Associate Editor, the *Cleveland Plain Dealer,* Cleveland.

Textile

Chairman E. M. Timmons, Comer Avondale Mills, Inc., Sylacauga, Ala., reports that his industry will meet only in morning session.

"Bankruptcies and adjustment" will be the subject of an address by Hugh Wells of Wells & Marks, Attorneys and Counsellors at Law, Cleveland, Ohio.

Following this formal talk, there will be an open forum discussion conducted by H. P. Reader of Cannon Mills, New York, N. Y. Assisting Mr. Reader will be leading credit executives in the textile industry as a panel of experts. Following are some of the topics which will be discussed in open forum fashion: "Terms of sale, methods of enforcement, terms chiseling," "The credit man of the future—his position in his company as compared to other professions—what he should do to raise his professional standing," "Special credit problems and increasing department efficiency—need for system of reporting past due indebtedness monthly—credit insurance," "Credit executives' views on current and future trends—(A survey conducted recently by the New York Credit Men's Association)."

An industry luncheon is being scheduled at 12:30 P.M.

Wearing Apparel

"The apparel outlook for fall, 1948" will be the subject of a talk by A. Henry Thurston, acting chief, textile and leather section, Department of Commerce, Washington, D. C.

"Outlook for fall, 1948, from a manufacturer's viewpoint" will be covered by E. Heine, H. A. Seinsheimer Co., Cincinnati, Ohio.

"Sources of credit information" will be discussed by R. J. Fowler, Pendleton Woolen Mills, Portland, Ore.

O. E. Dreutzer, The Alms & Doepke Co., Cincinnati, Ohio, will talk on "New account problems."

"Maximum credit limits" will be the general topic of a panel discussion for which speakers will be C. Daniels, Publix Shirt Corp., New York, N. Y., and Lou Smirnow, Phillips-Jones Corp., New York, N. Y.

Sufficient time will be allowed following each of the talks for question and answer period.

Chairman Karl J. Krause, Coopers Incorporated, Kenosha, Wisc., reports that the industry is scheduling a luncheon at 12:30 P.M. for the purpose of getting better acquainted among men in the industry.

Local Association News

Los Angeles: The Pacific Southwest Conference was held at the Hotel Biltmore in Los Angeles on March 11, 12 and 13. Representatives attended from San Francisco, Oakland, Sacramento, Stockton, Fresno, Saltlake City, San Diego and Phoenix. Among the notables present were National President Charles B. Rairdon and Henry H. Heimann, whose keynote speech on opening day was one of the highlights of the conference.

Friday, March 12, was devoted exclusively to group meetings. Carefully prepared discussions and programs were given at all of these meetings. Among the speakers at the Saturday session were Russel S. Bock, of Ernst & Ernst, who spoke on "The Tax Burden and your Customer", and Paul Millians, Commercial Credit Corporation Vice-President on "Business Trends in the New Economic Era."

The 1949 conference is to be held in San Francisco.

Grand Forks: 125 representatives of credit associations in Grand Forks and Fargo, North Dakota, and Minneapolis, St. Paul and Duluth, Minnesota, attended the annual conference of northwest credit men. An interesting and comprehensive program was arranged. Henry H. Heimann spoke at the annual banquet.

Next year's conference will be held in Duluth.

New York: The Secretary-Managers of the Eastern District, National Association of Credit Men held a two-day conference at the Hotel Commodore in New York March 4 and 5.

The Executives met to discuss the mechanics of Association management. Secretary-Managers were present from New York, the host Association, Syracuse, Rochester, Richmond, Boston, Providence, Washington, Elmira, Baltimore, Binghamton, Pittsburgh, Charleston, Philadelphia, Hartford and Newark.

Toledo: One of the largest turnouts of the year occurred when L.W. Bernhard, Standard Oil Company of New Jersey, addressed the Toledo Association of Credit Men on Constructive Credit Management." The meeting was designated as Past Presidents' night and was attended by C. N. Bevan (1918); Harry Kirtland (1920); H.T. Fulton (1924); G.M. Bender (1928); G.K. Keller (1929); S.E. Eichman (1934); A.G. Maxwell (1937); A.H. Ahlers (1938-9); W.F. Fox (1941); N.S. House (1943); C.C. Schnidt (1944); J.G. Ketteman (1945) and C.J. Laures (1946).

New York: Less than 2% of the 400 credit and financial executives who responded to a business survey just completed by the New York Credit Men's Association expect a depression. However, 77% of those who responded to the Association's "How's Business?" questionaire believe that a mild business recession is on the way, with the majority naming the last quarter of 1948 as the crucial time.

Foremost among the reasons given by the credit men for their recession forecast were continued buyer resistance to high prices, top-heavy inventories, and, to a lesser extent, the tightening of credit, decline in purchasing power, and supply catching up with demand in a number of industries. Less than 7% blamed the foreign or domestic situations, while even fewer attributed the recession to the fact that 1948 is an election year.

Youngstown, Ohio: Roy A. Foulke, Vice-President of Dun & Bradstreet, Inc., addressed the Youngstown Association of Credit Men on March 30. His subject was "Who Will Be in Business One Year from Now?"

Omaha: The Omaha Association of Credit Men, which incidentally celebrates its fiftieth anniversary this year, staged an insurance forum on March 18. The meeting was designed to acquaint the credit manager and his associates with the importance of insurance in his work.

Three speakers covered various aspects of the insurance problem. Joe S. Schmidt, Insurance Company of North America, spoke on business interruption; Robert Coffee, Grain Dealers' National Mutual Fire Insurance Co., on Fire; and Paul Conklin, Omaha Insurance Agency, on business life.

Philadelphia: Major credit problems of the day was the subject of a panel discussion held by the Credit Men's Association of Eastern Pennsylvania on March 8.

Three speakers composed the panel, two of them well known and active members of the NACM. Clarence E. Wolfinger, President of the Eastern Penna. Association was moderator. Dr. Myron S. Heidingsfield, of Temple University, discussed price and marketing problems. A. N. Gentes, Second Vice-President of the Guaranty Trust Company of New York, and a longtime member of the administrative committee of the Foreign Credit Interchange Bureau, spoke on foreign trade. National Director Earl N. Felio, Assistant Treasurer of Colgate-Palmolive-Peet Co., dealt with practical credit problems.

Cleveland: The indomitable, indefatigable entertainment committee of the Cleveland Association of Credit Men has reserved 1500 seats at the Stadium for the night of May 18th which will be known as "National Association of Credit Men Night." The Cleveland Indians will play the Philadelphia Athletics. There will be fireworks after the game and a supper and entertainment at one of the hotels from 11 to 1 am.

Spokane: Charles W. Adams, credit manager and assistant treasurer of John W. Graham & Co., resigned on March 1 to manage the Gibson Products Co., Inc., wholesalers of drug sundries. He had been with the Graham firm for 36 years, having started as office boy.

Newark: The New Jersey Credit Women's Group sponsored a forum March 16 on the subject of "Collection Procedure." The discussion was led by Curt C. Wenske, Schnefel Bros.; Edward J. Holgan, A. R. Purdy Co., Inc., and Russell H. Peters, T. A. O'Loughlin & Co., Inc.

Minneapolis: "Credit Interchange" was the topic of the Minneapolis Wholesale Credit Women's dinner meeting in March. As part of a series of discussions, "Know Your Credit Association," Mr. Rubert H. Lindholm, head of the Interchange Bureau in Minneapolis, as guest speaker, described the operation and advantages of Credit Interchange Service.

News of the Credit Women's Groups

Cleveland: Fifty members and guests attended the March 10th meeting of the Cleveland Credit Women's Club, which was held in the College Club. The guest speaker was Mr. W. P. Chamberlain, credit manager of the Cleveland Cliffs Iron Co. and Vice-President of the Cleveland Association of Credit Men this year. His subject was "Coal as Related to the Financial and Business Scheme of America" with a movie entitled "Black Magic" shown as an illustration and background for the address.

Boston: The annual meeting of the Credit Women's Club of Boston was held Thursday evening, March 11, at the Pioneer Hotel, Boston, Mass. This meeting was attended by twenty-four members and guests.

We were fortunate to have as our guest speaker Mr. Arthur G. Tierney, member of the Mass. Bar Association. At the present time, Mr. Tierney is serving as an active member of the Boston Bar Association Committee which is investigating the unauthorized practice of Law.

New officers were elected with the following results: President—Miss Reggia DeForge; Vice-President—Miss Marie T. O'Dea; Secretary—Miss Nancy Doherty; Treasurer—Miss Ernestine Newell.

St. Paul: The March 18 dinner-meeting was held at the YWCA. Election of officers took place. The following members will serve for the 1948-1949 term: President: Elsa Stjernquist, Berc Fruit Company; V.-President: Alice Muldoon, Tilden Produce; Treasurer: Theresa Sweeney, Socony Vacuum; Secretary: Betty MacAleese, Wolters Auto Supply.

Bridgeport: The Bridgeport Credit Women's Group heard a sparkling address by Vivien Kellems at the March 31 meeting. She spoke on "Withholding Taxes." Miss Kellems, it will be remembered, is the industrialist from Westport, Conn., who stated at a meeting in Los Angeles that she would no longer collect withholding taxes from her employes unless the Treasury Department put her on the payroll or at least gave her a badge! Because of the interest engendered by Miss Kellems' talks, an invitation was extended to the Credit Men's Associations of Bridgeport, New Haven, Hartford and Waterbury.

Toledo: Members of the Toledo Credit Women's Club celebrated the eighth anniversary of their organization with a dinner party, Tuesday evening, March 2, 1948, in the Toledo Woman's Club.

Following the dinner a short business meeting was held. The following members were elected as officers of the club for the coming year:

President—Mrs. Ralph Foster, Toledo Steel Products Co.; Vice-President—Mrs. Geraldine Francke, Toledo Trust Co.; Secretary—Mrs. Alma Wisman, Electric Auto Lite Co.; Treasurer—Mrs. Elizabeth Hubert, Swartzbaugh Manufacturing Co.

Chicago: Our annual meeting was held on Tuesday, March 9, at the Illinois Club for Catholic Women. Amid flowers and music, the following officers were installed: President, Elgie C. Northam, Hanson-VanWinkle-Munning Co.; Vice-President, Mae A. Turner, Confections, Inc.; Treasurer, Marguerite L. Higgins, Horders, Inc.; Recording Secretary, Avaneil Grandys, Continental Scale Corporation; Financial Secretary, Continental Insurance Co.; Corresponding Secretary, Dora K. Fitzpatrick, Arthur S. LaPine & Co., Inc.

Seattle: March 8 was new members' night at the Seattle Credit Women's Club. Twenty-one new members have joined since last September and total membership now approaches one hundred.

Portland Executive Manager Completes 20 Years' Service

Portland: Past Presidents and Trustees of the Portland Association of Credit Men, Portland, Oregon, recently met at a dinner honoring Mr. E. W. Johnson whose twenty-year term of office has been completed.

Mr. E. W. Johnson, Executive Vice-President and Manager of Portland Association of Credit Men, Inc., first entered upon his duties with that Association, then known as The Adjustment

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Credit in Construction Work

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whom the Sales Department is calling. The usual credit agency reports and reference books furnish much of the desired information, but not all. Under the auspices of the National Association of Credit Men there are many Industry trade groups, and under the local Associations there are still more industry and Trade groups. Aside from those there are still other credit group activities, all intended for the protection of suppliers.

It is good practice, and not too tedious, to tabulate month by month, delinquencies reported from such sources. This soon builds an individual performance record, probably from only your own or an allied industry, whether the purchaser is your customer or not. It serves as a good "shutoff" warning on your own customers, and also a good warning against an undesirable "prospective" account, who perhaps has worn out his welcome at his present source of supply.

Use Interchange

Credit Interchange reports should be used more or less regularly in policing all accounts thought to be susceptible to changed manner of payment. What we are definitely interested in is how a firm pays its bills. Even firms rated on a much higher level should be checked occasionally in the same manner. OUR invoices may be paid promptly, or because of an industry's discount terms, little tardiness may appear in Group reports. At the same time, these may be the only suppliers being paid on time, and serious slow pay habits may be prevalent with other suppliers. Hence, the only way to get the correct picture is to catch a cross section of the firm's paying habits with all known suppliers.

Members of Trade Groups have expressed at times an aversion to answering Credit Interchange inquiries, on the ground they (the members) have the information they want in the Group report, so why bother to pass the same thing to someone else? This has hurt Interchange reports, but to the writer, is also decidedly shortsighted. Maybe the member knows a certain purchaser pays promptly for his industry product because his name never appears in a Group delinquent list. But he also needs to know, as a matter of constructive information, that he pays others the same way; or, if he doesn't, what is the extent of the delinquency.

If all of us, as manufacturers, decline to answer Interchange inquiries, then there can be no reasonably complete Interchange report. How does he pay for such items as lumber, paint, glass, steel, and steel products, plaster, hardware, etc.; etc? Aren't we choking ourselves when we don't exchange information, merely because we have a Group report?

Using Interchange reports, and of course other reports as well, there are three distinct phases of credit control which are desirable to set out as objectives:

(a) Periodically check all existing customers, large or small, irrespective of standing. Once in a while such a firm fails. Heavy single losses, when they occur, usually are with a firm known and dealt with for years—not with strangers.

(b) Recheck any firm at the first occurrence of delinquency.

(c) Keep prospective customers checked in advance of first orders, if possible.

This last operation must have the help and cooperation of the sales department, and is worth it. If it is done, a first order can be shipped just like an old customer—no delay or difficulty, and no guessing as to credit. Investigation of a prospect may reveal that credit cannot be approved, and then the sales department can pass him by, in most cases, and save both time and money.

Be Watchful This Year

It is the writer's considered conclusion that credits in the construction industry will have to be very carefully supervised during 1948, and how much longer can be judged only as time progresses. Probably through the next five years is a reasonable guess.

As we in the construction field well know, some items of materials are still in critical shortage of supply; some all the time, and others mostly at peaks of seasonal demand. Much the same thing is true of labor—particularly true in certain areas and as regards various skilled labor trades.

The result has been, and it is certain to continue, that building jobs, varying from single houses to large construction projects, are held up for various reasons, and maybe several times, first for one kind of material, then for another; or even after the material is obtained, more delay is encountered because labor from the skilled trade required cannot be obtained.

All these circumstances add up to quite staggering costs, and it seems impossible that everyone concerned will escape without financial injury. So if the consumer-purchaser finishes unable to pay his bills, loss will fall on the dealer or manufacturer, as the case may be.

Attractive to Veterans in Business

Another element in the field today is the many new businesses started under G. I. loans. Some have demonstrated success, some still remain to be proved, and many have already failed, or are at that point. What is true within the field of the cement industry must also be true, or quite similar, in other industries.

Not all these men should have been started in business, they just do not have the qualification of sound business sense and management. True, they may be good mechanics, hard workers, and honest, but through lack of knowledge and experience become easy meat for the unscrupulous purchaser, who leaves them stranded with unpaid accounts and bad debts.

What should be the Credit Manager's attitude toward these many still unproved businesses? It still needs to be governed by sound business practice, even though we are

inclined to extend a G. I. some extra tolerance occasionally in the hope of bailing him out of a temporary difficulty. We, as Credit Men, are in fact in positions of trust with management, and a credit risk must be evaluated on its own merits—the decision should be made by the head, not by the heart.

By the same token, some part of these new businesses will be, within a few short years, important outlets for many products. Some of them will have survived a rather bitter struggle for existence through the present period of high prices, shortage of materials, etc. If we take a highbrow or callous attitude now, we are likely to shut ourselves out of a market later, when we may want it badly.

So it seems the sensible and constructive course is to investigate and screen even more carefully all credit risks involved, giving full, but not inflated value to the probability of success, and to future value as an outlet. It is necessary to evaluate the personal ability of the customer or prospect, his geographical location in relation to his competition, and any other existing factors which will contribute to his success or failure.

It is doubtful that any treatise or credit manual can be found that provides a sure guide to the right answers. It seems to the writer that the credit question in all such situations finally boils down to a matter of careful analysis and sound business sense, at which time there is, of course, no substitute for experience.

It Can Happen Again

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trend. With so much involved we had every right to insist on monthly sales figures started comparatively with the previous year, and an interim balance sheet, which, even at midyear would have reflected the doward trend.

(3) We should have made some personal calls and had the same close contact the banks had.'"

"Then we probably could have gotten out safely about mid-year?"

"So it seems to me."

"Could it happen now?"

"Perhaps not in just the same way-but yes. Many firms are in expansion programs now, at peak construction prices. Some of these are financed out of reserves set aside in the war years. Of course interest rates are lower than when the Kompleet Department Store tied itself up. But everything is relative to something else. Let's generalize to this extent: that wherever there are heavy fixed charges in relation to probable income, be alert for the effect of a slump in sales, especially one of these fast-trading organizations."

Portland Manager

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Bureau of the Portland Association of Credit Men, on the morning of March 9, 1928.

Since then, the Association has grown in membership, prestige, and financial stability, to its present enviable position, largely owing to Mr. Johnson's efforts.

Mr. Johnson came to that Association with a full background of retail and wholesale experience. In 1908 he engaged in the retail business for himself in Minnesota. In 1916 he became affiliated with a wholesale firm in Portland, later known as Miller, Calhoun, Johnson Co., wholesale distributors of notions, hosiery, underwear, etc., in a territory comprised of the Northwestern States and Northern California. In 1926 this firm, of which Mr. Johnson was then the general manager, had an opportunity to sell its business advantageously to the Western Dry Goods Company of Seattle, Wash.

Mr. Johnson remained with the Western Dry Goods Company for about a year, when he decided to retire from that business, immediately after which the Board of Directors of The Adjustment Bureau offered him the Managership of that Corporation, which he accepted on March 9, 1928. His experience as a retailer and wholesaler has been invaluable in connection, not only with the management of the Association but in supervising the liquidations and extensions handled by the organization. He is a member of the Rotary Club, was for two years chairman of the Trade and Commerce Committee of the Chamber of Commerce, and for four years a Director of the Portland Chamber of Commerce, as well as holding numerous other civic positions and offices. He has been active in the affairs of the National Association of Credit Men, and was President of the Portland Association of Credit Men in 1922–1923.

Statements in Credit Work

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amount that formerly found a flow through credit channels.

Businessmen who study business affairs are in agreement in stating that this action may have far-reaching consequences and as they point out it is entirely possible that the Federal Reserve Board, which is empowered to require maximum reserves of 26% in banks in New York City and Chicago, 20% reserves from other Reserve city banks, and 14% from country banks, may invoke these provisions if it becomes necessary to further restrict inflationary trends.

Must Know Background

The foregoing comments form a background for a more intimate consideration of the analysis made for credit purposes. With regards to a specific company, it is very important that we know something of the antecedent history of the organization. This will entail a full record of the individuals associated together in the operation of the business enterprise, and a record of the company itself as far back as ascertainable.

Have there been any records of failures? Any evidences of fraud? Is there a record of fire losses? Composition settlements? Receiverships? Do the individual officers give indication of adequate capacity to handle their affairs satisfactorily?

To this should be added the current trade investigation which of course will entail an examination of the high credit which has been extended to the account, the amounts owing, those past due, whether or not the company takes unearned discounts, if it is a chronic complainer on shipments or is it inclined to renig on orders or contracts which might be affected by a fallen market.

The information received both in connection with the antecedent history and the current trade investigation will be helpful to us in the conclusions which we draw from the financial statement proper.